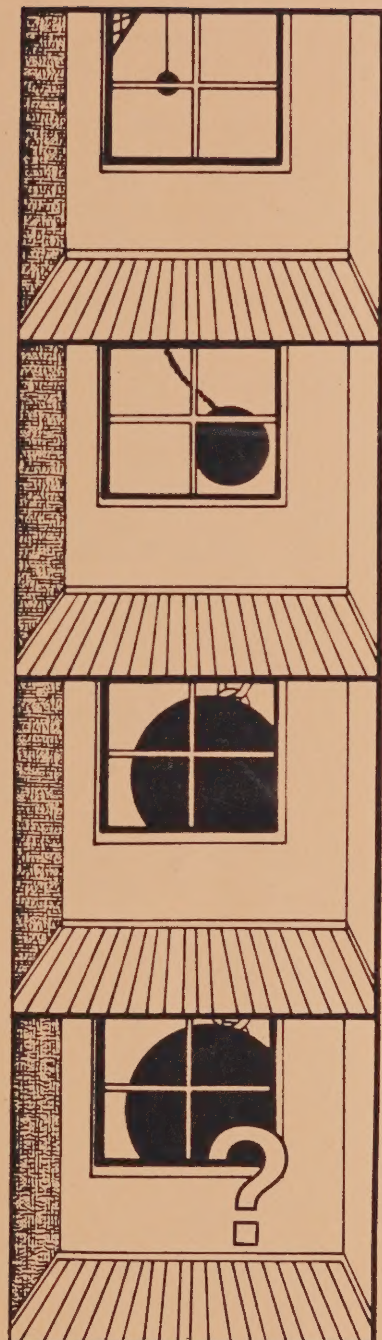


Under Pressure: Prospects for Ontario's Low-Rise Rental Stock

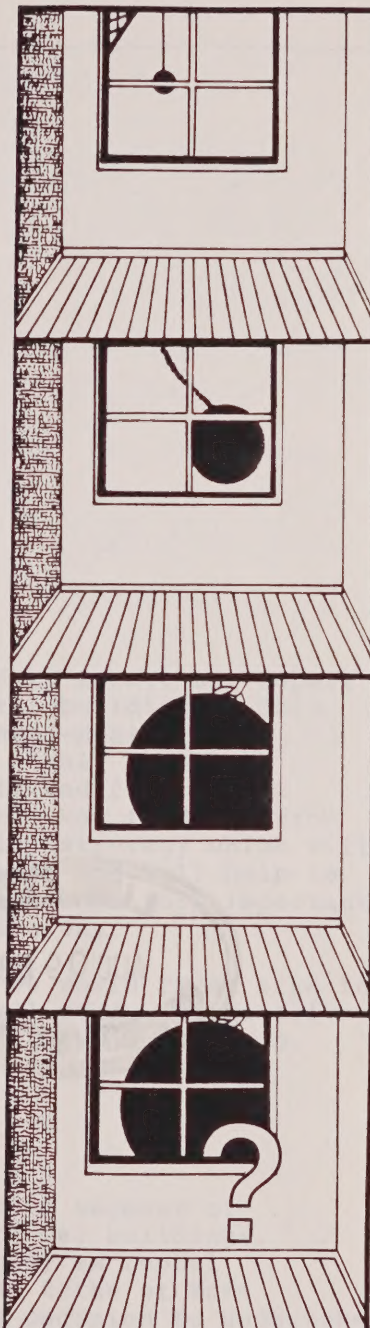
A report prepared for the:

Ministry of Municipal Affairs and Housing

by:

PETER BARNARD ASSOCIATES

June, 1985



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73 Richmond Street West, Suite 300
Toronto, Ontario, Canada M5H 1Z4
416/865-1477

June 21, 1985

8436

Ms. Sylvia Davis
Manager
Housing Conservation Unit
Ministry of Municipal Affairs
and Housing
777 Bay Street
Toronto, Ontario
M5G 2E5

Dear Ms. Davis:

With this letter we are pleased to submit our report on Ontario's stock of low-rise rental buildings. This report is the final chapter of a three-phased study carried out over the last year and a half for the Ministry by our firm, Ministry staff and five other consultants. The report outlines the key findings from this research and recommends a policy strategy which will both encourage low-cost rehabilitation and will help to offset the market pressures which threaten this important stock of affordable rental accommodation.

Before presenting this report, we would first like to outline the background to the overall study and describe the manner in which the research has been approached.

STUDY
BACKGROUND

This study focuses on a particular segment of Ontario's rental stock - low-rise rental buildings, defined for the purposes of this study as rental buildings under 5 storeys containing three or more units. As you know, the Ministry's decision to undertake a detailed examination of such a specific segment of the rental sector was motivated by four key factors:

LOW-RISE RENTAL STUDY COMPONENTS

TOPIC		CONSULTANT	
• Issue Analysis	-	Peter Barnard Associates	PHASE I BACKGROUND RESEARCH
• Key Informant Interviews	-	Peter Barnard Associates	
• Literature Review	-	Margaret Meek	
• Statistical Summary of Low-Rise Stock	-	Clayton Research Associates	PHASE II FIELD RESEARCH
• Survey of Low-Rise Stock in Ottawa, Toronto, and Hamilton	-	EKOS Research Associates	
• Evaluation of Conserve-A-Unit Pilot Project	-	Resource Integration Systems	
• Small-City Low-Rise Survey			PHASE III POLICY ANALYSIS
• Key Informant Interviews - Policy Development	-	Peter Barnard Associates	
• Policy Analysis			
• Program Recommendations			

1. The Ministry, in conjunction with the Association of Municipalities of Ontario had recently completed a major study of residential intensification and rental housing conservation which was largely focussed on Ontario's high-rise apartment buildings. The logical next step for the Ministry was to examine the low-rise sector.

2. The low-rise stock was known to contain many older buildings, suggesting that rehabilitation and conservation issues may exist within this sector.

3. It was also thought that low-rise buildings comprised a significant proportion of the Province's rental stock and that they represented a key source of low-cost housing.

4. Finally, issues concerning this stock were being raised and publicly debated in the absence of a solid background of research to support that debate.

These factors led to the creation of a three-phased research program aimed at furthering our understanding of the characteristics of the buildings, owners and tenants which make up this sector, assessing its prospects for the future, and identifying policy issues which should be addressed by the Province. An outline of the research components which comprised each phase of the project, and the consultants responsible for them, is presented in the accompanying exhibit.

STUDY APPROACH

In recognition of the complexity of the tasks and sensitivity of the issues which we were asked to address in this study, it was important to design a research approach that was focussed, yet flexible enough to get the viewpoints of all groups involved with this sector. We would like to draw your attention to three specific characteristics of our approach to this project which we feel have enhanced the quality of our findings.

1. Many groups consulted during study. The research for this study was designed to seek the viewpoints of all the key constituents of the low-rise sector. In-depth personal interviews were conducted with both owners and tenants. Detailed

inspections of over 100 low-rise buildings were performed by trained professionals to assess the physical condition of the stock. In addition over 60 interviews have taken place with housing industry analysts and provincial, federal and municipal government officials involved with this stock. Our research has also looked at the low-rise stocks of all sizes of centres. While certain research efforts focused on the older low-rise stocks of Toronto, Hamilton and Ottawa where we felt any problems would be in a more mature and visible state, other research examined the role and prospects of low-rise buildings in smaller market areas.

2. Approach took advantage of many information sources. The variety of information sources used in the study, coupled with the high degree of interaction between ourselves, the other consultants and the Ministry project team all served to ensure that the findings of the study did not reflect any possible bias of one particular data source. This approach was necessary to overcome the reliability problems which can be encountered when surveys are used to research such sensitive matters and the difficulties inherent in trying to predict what will happen to this stock in the future.

3. Policy research emphasized practicality. Careful attention was paid to developing policy recommendations which were not only effective but also practical. To ensure that our policy recommendations could be implemented, each option was reviewed with representatives of the Ministries who would be involved. Each of our recommended measures has been evaluated with respect to its cost, its ease of implementation, and its ability to be targeted.

As is often the case with this type of study, our research brought us into contact with issues peripheral to our particular terms of reference but which we feel would be in the Ministry's interest to explore further. We have noted any such instances in our report.

KEY FINDINGS

Before outlining the structure of the report itself, we would like to discuss some of the key findings which have emerged from this major investigation of Ontario's low-rise rental sector. Two key findings related to the physical stock itself are its size and its age. Low-rise rental accounts for 1/4 of all rental accommodation in the Province and is important to all sizes of urban areas. It's most influential physical characteristic, however, is its age, with approximately 1/3 of all existing buildings now being more than 40 years old. Age is the principle factor underlying the significant rehabilitation needs which this sector is now experiencing. Fully 25% of the buildings surveyed in Ottawa, Toronto and Hamilton were found to be in need of rehabilitation. These needs were less apparent in the smaller cities due to the fact that low-rise rental buildings in these areas tend to be newer.

This was only one of a number of differences we found between the low-rise picture in the major cities such as Toronto, Ottawa and Hamilton and that in Ontario's smaller centres. Most important to mention here is that in the large cities, units in low-rise rental buildings tend to rent at significantly lower levels than units in other rental forms. These cheap rents have attracted a significant number of tenants who have incomes at or below the poverty line and for who few other housing alternatives exist. In smaller cities there tends to be less of a distinction between the low-rise sector and other rental forms in terms of their market role. This makes the low-rise stocks of Ontario's largest cities an especially valuable resource to preserve.

Our analysis has also shown the owners of low-rise buildings to be different from owners in other segments of the rental market, most significantly in terms of their size and sophistication. While there is a variety of owner-types in this sector the majority are small business people, for the most part individuals or husband-wife partnerships. We have found the motivations and management practices of this group to be quite different from those of larger scale owners. This is a key fact which must be recognized for any housing policy to be effective within this sector.

Perhaps the most important finding of this study is that many low-rise buildings in Ontario's major cities, most particularly Ottawa, Toronto and Hamilton are threatened not only with accelerated physical deterioration but also with the likelihood of demolition for redevelopment, conversion or luxury renovation. In large part these trends can be tied back to the stock's age. But we have also found that there are many disincentives to continuing ownership of these buildings, disincentives which must also be seen as contributing to these changes within the low-rise stock. The implications of a significant proportion of the big-city low-rise stock physically disappearing or undergoing such significant changes to its market role are quite severe given the relatively low incomes of many low-rise tenants and the shortage of such affordable accommodation.

Despite the complexity of the situation and the difficulty in trying to re-direct or guide market forces, there are many steps which the Province can take to encourage the preservation of this important stock not only in physical terms but also in terms of its key market role. We feel that it is critical that this stock be preserved so that tenants, particularly low-income tenants, will continue to have access to this low-cost housing. Our recommendations set out a balance of controls and most importantly, incentives which we feel to be the most appropriate course of action for the Province to pursue.

REPORT
OUTLINE

Our report consists of four chapters plus an appendix.

1. Understanding the Low-Rise Sector examines the characteristics of the stock itself, its tenants and its owners. The findings of this chapter provide the important background to understanding the policy issues discussed later in the report.

2. Pressures for Change looks at the prospects for Ontario's low-rise stock in terms of its physical condition and the effects of the market pressures which are being felt by owners in this sector. Conclusions are drawn regarding likely future changes in the low-rise stocks of key market areas.

3. Implications of Change discusses the likely impacts of forecasted trends on tenants, owners, senior governments and local communities. This chapter presents a case for government action to stabilize the low-rise stocks of Ontario's major cities.

4. Policy Recommendations sets out a recommended strategy for the Province to consider as a means of stabilizing the low-rise sector. Optional packages are discussed should resource limitations require an alternative approach.

Appendix A is a more detailed discussion of some of the methodological considerations involved in this major research project.

* * * * *

In conclusion, we have enjoyed undertaking this assignment for the Ministry. Many thanks are owed to large number of people who have been consulted during the course of this project, especially the owners and tenants of the buildings surveyed as part of this research. Most importantly, we wish to extend our thanks to Sue Corke, David Peters and George Przybylowski of the Ministry of Municipal Affairs and Housing for their contributions in co-ordinating the study.

Respectfully submitted,

Peter Barnard Associates

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Chapter 1: Understanding The Low-Rise Sector

Ontario's low-rise rental stock has a number of key characteristics which give it special importance from a public policy perspective.

- It is a major source of rental accommodation in the Province and it plays an important role in the rental markets of all urban areas, regardless of their size. There are over 292,000 units in low-rise building across the Province, representing 1/4 of the total rental stock.

- There are over 90,000 units in buildings over 40 years old making low-rise the oldest multi-unit rental form in Ontario.

- The owners of these buildings are primarily small business people. Individuals and husband-wife partnerships are the most common type of owner in this sector. These two owner types account for approximately 40% of all low-rise units. These landlords purchase their buildings for long-term ownership and tend to use less formal management practices than professional real estate firms. In addition, they tend to have small portfolios. Only 30% of all low-rise owners were found to own more than one building.

- Low-rise tenants are primarily young, unrelated households. More than half of households in the low-rise stock are headed by someone under the age of 35. This gives tenants in the low-rise stock a younger age profile than those found in Ontario's high-rise apartment buildings.

- Many low-rise tenants have low incomes, particularly those in Ontario's largest cities. Over 40% of surveyed households in Ottawa, Toronto and Hamilton were found to have incomes below poverty line levels. These tenants would suffer severe affordability problems elsewhere in the rental market.

- Ontario's low-rise apartment buildings are an important source of inexpensive rental housing. Rents in this stock tend to be at the lower end of the market as a result of the age of these buildings, their coverage under rent control and the management behavior of their owners.

Chapter 2: Pressures for Change

Ontario's low-rise stock is under pressure from forces of physical deterioration due to its advanced age and from market forces which are causing buildings to be demolished, luxury renovated or converted to non-rental uses. These pressures are greatest in Ontario's largest cities.

- Rehabilitation needs are significant. Approximately 25% of all surveyed low-rise buildings were found to be in need of rehabilitation. Exterior building components such as foundation walls, cladding and windows are in particular need of repair. Energy efficiency in this stock is also quite low as a result of obsolete heating systems, inadequate insulation and deteriorating building envelopes.

- Management practices have added to the deterioration of these buildings through minimal maintenance and repair activity. This behavior is a response to environmental conditions, such as rent control and the marginal financial position of many low-rise buildings.

- Buildings could be lost due to physical deterioration prior to the end of their normal lifetimes as a result of low levels of investment in maintenance and repair. Forecasts for the cities of Ottawa, Toronto and Hamilton indicated that as much as 16% of their low-rise stocks could be lost to physical deterioration over the next ten years.

- Luxury renovation, demolition and conversions threaten an even larger portion of this stock. These scenarios are the outcome of market conditions created primarily by the age of the

stock and by the existence of rent control. A case study of changes in the City of Toronto's low-rise stock shows that many buildings have undergone these changes. Forecasts of future trends in Ottawa, Toronto and Hamilton indicate that as much as 16% of low-rise buildings in these areas could undergo one of these changes within the next ten years.

Chapter 3: Implications of Change

The impacts of the physical deterioration, demolition, conversion and luxury renovation taking place in the low-rise sector will be felt by four principal groups.

1. Tenants will experience affordability problems and a reduction in the choices available to them within the overall housing stock.

2. Environment for ownership will become increasingly confrontational, making ownership less attractive to existing and prospective owners of low-rise buildings.

3. Municipalities will feel community impact of losing affordable rental stock, increasing the demand for assisted housing, illegal rental units and municipal support services. Deteriorating building conditions will also have a negative impact on neighborhood quality.

4. Senior governments will experience increased demand for assisted housing, putting pressure on the Province and the federal government to allocate more resources to social housing programs and to broaden the eligibility guidelines of current programs.

Chapter 4: Policy Recommendations

The impacts of continued loss of low-rise buildings to physical deterioration, demolition, luxury renovation or conversion are serious enough to warrant Provincial intervention. Any strategy to stabilize this sector should be targeted at the major cities where these problems are the greatest. A balance of controls and incentives should be used that will make the operation of these buildings more viable and will ensure that they remain in their current use for a specified time period.

We recommend that five initiatives be part of any provincial strategy. These measures are inexpensive, easy to implement and will have a positive effect on the problem.

1. Province should fund a municipal planning support program to allow municipalities to study conditions in their low-rise apartment stocks. Such a program would have a maximum annual cost of $400,000 for five years.

2. Municipal control over demolition of rental buildings should be strengthened through changes to the Planning Act.

3. Province should encourage municipalities to raise the permit fees for demolition and luxury renovation of low-rise buildings.

4. Municipalities should be encouraged to allow density transfers from low-rise sites. Excess density on existing low-rise sites could be transferred to other sites in return for conditions on the future of the low-rise building.

5. Rent review guidelines, should be adjusted to encourage desirable rehabilitation of the low-rise stock. Rent controls are currently perceived by low-rise owners as a major deterrent to investing in repair and maintenance.

These measures alone are not enough to address the problems facing the low-rise sector. To achieve the highest impact, it is recommended that the Province undertake four additional program initiatives, targeted primarily at older buildings in Ontario's major cities.

1. A property tax rebate to improve the financial viability of low-rise buildings. This program would be entirely provincially run and would not affect the tax revenues of local municipalities. Maximum costs for the program would be $18 million per year for five years, assuming 100% take-up by the target population.

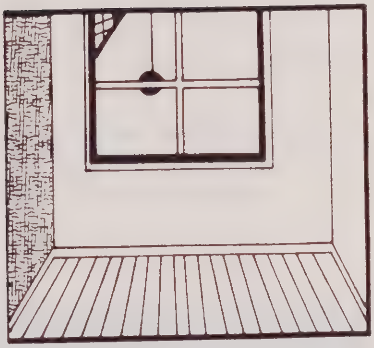
2. An interest-free loan program for rehabilitation work. This program should be modeled after the Conserve-A-Unit pilot program sponsored by the Province and should be targeted at the older low-rise stock. The annual cost of such a program for a five year period would not exceed $12 million.

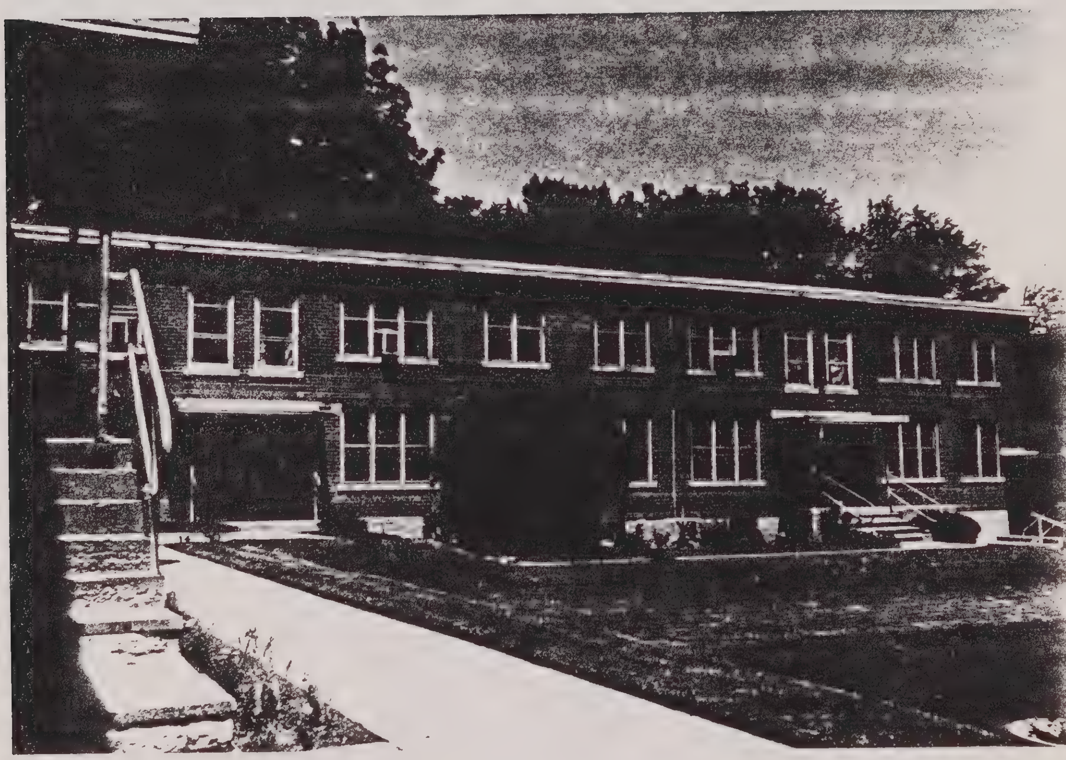
3. A program of property management and technical support services designed to increase management effectiveness in the low-rise sector and to encourage rehabilitation and preventative maintenance. Provincial expenditures would fall in the range of $1.5 - $2 million a year for five years.

4. Provincial Convert-To-Rent Program should be bolstered. The Province in it's coming evaluation of the Convert-To-Rent Program should look for opportunities to make it more effective in promoting intensification of existing low-rise buildings in Ontario's largest cities. With program changes and bolstered funding, this program could have a positive impact on stabilizing certain segments of the big-city low-rise stock.

Strategies with lesser impact, but requiring fewer resources are also possible. A decision on the most appropriate strategy will depend on the availability of resources for this and other housing issues facing the Province.

Understanding The Low-Rise Sector





1. UNDERSTANDING THE LOW-RISE SECTOR

Rental housing in Ontario assumes a wide variety of physical forms. The low-rise form, being common to all sizes of urban areas, is one of the most distinctive.

There is no hard and fast definition of what a low-rise rental building is. Commonly referred to as "walk-ups", they have been more precisely defined for the purposes of this study as rental residential buildings of less than five storeys, containing three or more units. Although most buildings meeting these criteria will be walk-ups, a small portion of the four storey buildings will have elevators.

If one was to piece together a composite of the "typical" low-rise building it would be a flat-roofed building of solid masonry construction containing between ten and fifteen one or two bedroom apartments. But there is certainly a great variety of low-rise rental buildings, both in terms of their size and their form. Another major low-rise rental form, which is distinct from our usual conception of a walk-up apartment building, is the "plex" stock containing three or more units. Triplexes, quadraplexes, etc. all fall within the realm of this study.

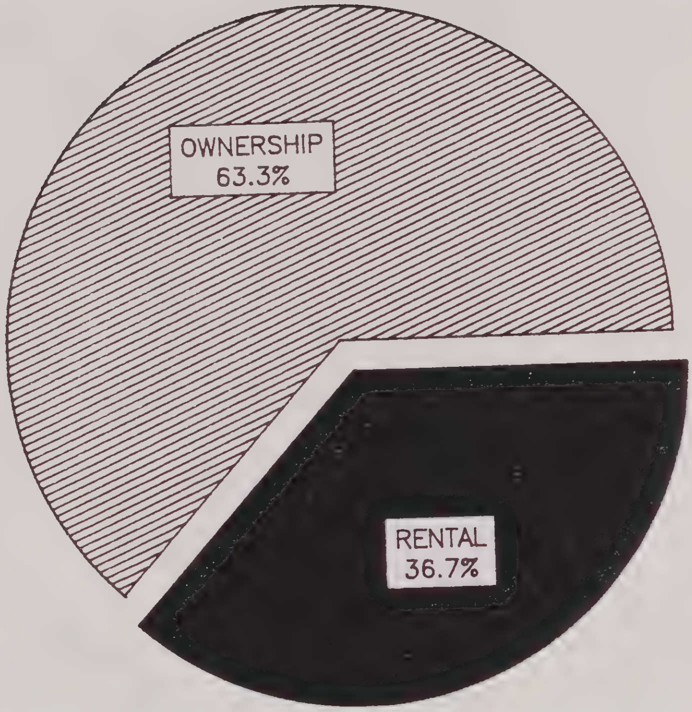
In the course of this report, other categories of rental buildings will also be referred to as a means of allowing the low-rise stock to be examined in context. High rise buildings, the converse of low-rise, are simply defined as rental buildings of five or more storeys. The final category, referred to as the "other rental" stock, is the least uniform and covers smaller scale rental forms, including duplexes, row-housing or town-houses, single-detached and semi-detached houses and mobile homes.

These definitions provide the beginnings of a physical description of the rental stock in general and the low-rise stock in particular. This chapter will develop a more complete description of this important segment of Ontario's rental stock by looking more closely at its physical characteristics as well as the characteristics of its owners and tenants.

Exhibit 1.1

OVER 1/3 OF ONTARIO'S HOUSING STOCK IS RENTAL

Occupied Dwelling Stock (units) Ontario, 1981



Source: 1981 Census of Canada

A. PHYSICAL CHARACTERISTICS OF THE LOW-RISE STOCK

The low-rise sector has a number of key characteristics which set it apart from other forms of rental accommodation and which give it particular importance from a public policy perspective.

Three of these key aspects are the size and distribution of the low-rise stock and its age. These and other physical characteristics of the low-rise stock, provide the focus for this section of the report.

LOW-RISE IS A MAJOR SOURCE OF RENTAL ACCOMMODATION

The total occupied Ontario housing stock consisted of almost 2,970,000 housing units in 1981. Of these, approximately 63% were in ownership tenure, 37% in rental tenure (see Exhibit 1.1). Thus more than one-third of all of Ontario's housing is made up of rental units. A significant number of these, in turn, fall into the low-rise category.

- Low-Rise accounts for over 1/4 of Ontario's rental stock. As can be seen in Exhibit 1.2, there were approximately 292,000 apartment units in low-rise rental buildings in 1981, representing over 1/4 of Ontario's total rental stock. Not all of these units were in privately-owned rental buildings however. It is estimated that out of the total 292,000 low-rise units approximately 214,000 were under private ownership while the remaining 78,000 were owned by government or third-sector landlords.*

- Most low-rise units are located in large urban centres. As might be expected the vast majority of Ontario's low-rise apartment stock is found in the Province's ten Census Metropolitan Areas (C.M.A.'S) (see Exhibit 1.3). While the larger

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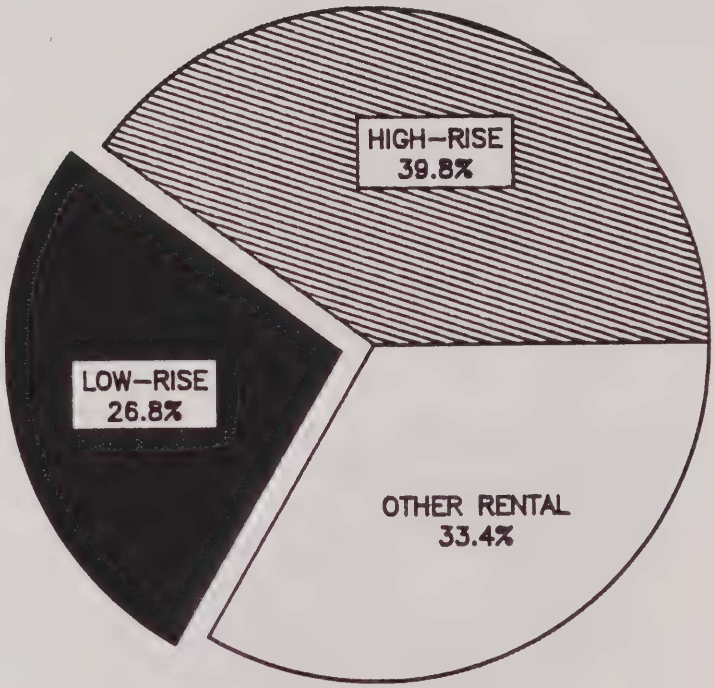
* These figures are estimates based on Ministry data. For an explanation of how these figures were derived, see Appendix A.

Exhibit 1.2

OVER 1/4 OF ONTARIO RENTAL STOCK IS LOW-RISE

Occupied Rental Stock (units)
Ontario, 1981



Low-Rise = Less than 5 storeys, with 3 or more units.

High-Rise = 5 storeys or more.

"Other Rental" = Duplexes, row housing, town-houses, single-detached, semi-detached, mobile homes.

Source: 1981 Census of Canada

centres such as Toronto and Ottawa have the greatest number of low-rise units, low-rise makes up a smaller percentage of their total rental stocks than in the smaller C.M.A.'s such as Thunder Bay and Sudbury. The only exceptions to the regularity of this pattern are Kitchener and St. Catharines.

- But low-rise has its greatest relative presence in rental stocks of mid-sized cities. While in terms of absolute numbers of units C.M.A.'s account for the vast majority of Ontario low-rise, this form of rental housing has its greatest relative presence in the rental stocks of urban centres with populations between 10,000 and 100,000. Exhibit 1.4 shows that low-rise accounts for 43.7% of the total stock of rental accommodation in this size of urban area in Ontario. In non-urban centres with populations under 10,000, however, low-rise units are usually fewer in number than those in the smaller scale forms of the "other rental" category. Nonetheless, low-rise still comprises roughly 27% of the rental stocks of these non-urban centres. Thus, low-rise rental is not simply a big-city rental form, but represents an integral and vital component of the rental stocks of all sizes of urban areas in Ontario.

LOW-RISE IS OLDEST MULTI-UNIT RENTAL FORM

Unlike the existing high-rise stock which was built largely within the last 35 years, the age distribution of low-rise rental buildings spans not only the 20th century but also the latter portion of the 19th century, making it the oldest multi-unit rental form within the overall stock.

- Close to 58% of Ontario's low-rise stock is at least 25 years old. Exhibit 1.5 provides a breakdown of the age distribution of Ontario's occupied rental stock in 1981. With over 90,000 units in pre-war buildings the 1981 low-rise rental stock has an age distribution that is considerably older than the high-rise stock and roughly comparable to that of the "other rental" category. As will be discussed later, the stock's age is a key factor underlying public policy issues within this sector.

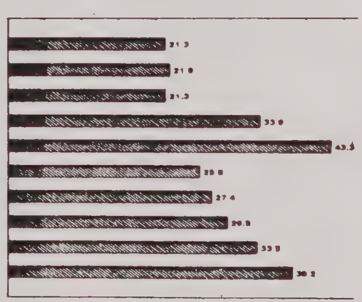
Exhibit 1.3

TEN LARGEST CITIES HAVE MAJORITY OF ONTARIO'S LOW-RISE

Occupied Low-Rise Rental Stock, Ontario CMA'S, 1981

MOST LOW-RISE UNITS ARE LOCATED IN CMA'S

NO. OF LOW-RISE UNITS	% OF TOTAL LOW-RISE UNITS	
96,520	33.0	TORONTO
21620	7.4	OTTAWA
14655	5.0	HAMILTON
10470	3.6	ST. CATHARINES
16865	5.8	KITCHENER
11910	4.1	LONDON
7620	2.6	WINDSOR
5025	1.7	OSHAWA
5895	2.0	SUDBURY
4915	1.7	THUNDER BAY
195,495	66.9	

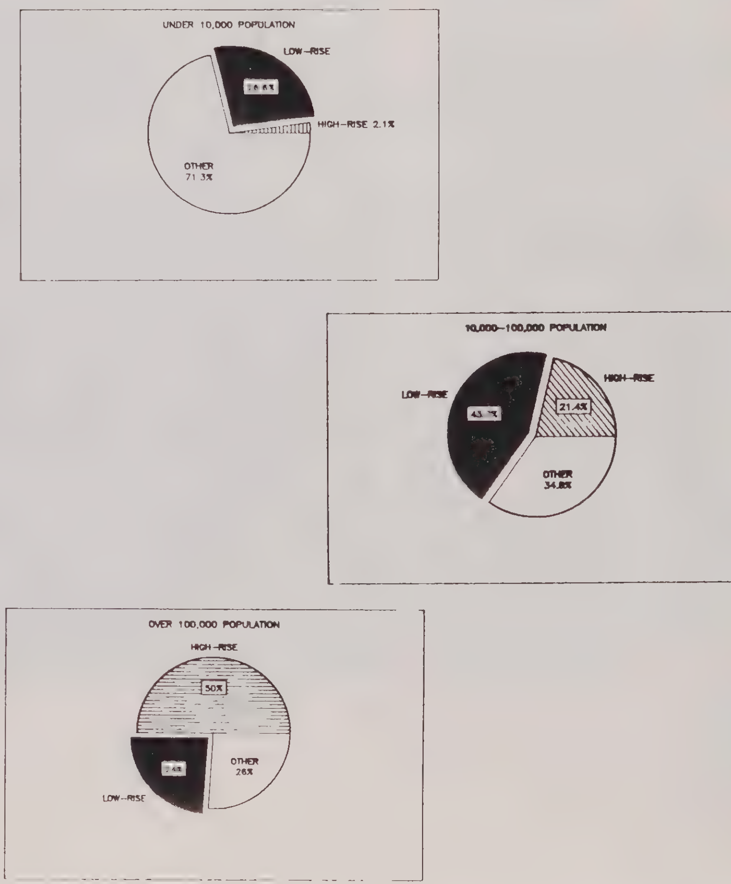


Source: 1981 Census of Canada

Exhibit 1.4

LOW-RISE IS PARTICULARLY IMPORTANT TO MID-SIZED CITIES

Occupied Rental Stocks, Ontario, 1981



Source: 1981 Census of Canada

- Low-rise stock in large urban areas is older than that in smaller centres. There is a distinct geographic pattern to the age distribution of the low-rise stock. As can be seen in Exhibit 1.6, the existing low-rise stock in Ontario's ten CMA's is considerably older than the low-rise stock found in smaller urban areas (non-CMA's). This pattern is the result of two factors:

  - many low-rise rental buildings were built in the larger urban areas during the post-war construction boom;

  - there have been few low-rise rental buildings constructed in the CMA's since 1976 as a result of overall conditions in the rental housing markets of these areas.

LOW-RISE HAS OTHER IMPORTANT PHYSICAL CHARACTERISTICS

The age of the low-rise stock and its significance to all sizes of urban areas are perhaps its most important physical characteristics from a public policy perspective. Yet this rental form has other key physical characteristics which add to its uniqueness and thus contribute to defining issues surrounding the future of this stock.

- Pleasant living environment, compared to high-rises, low-rise apartment buildings offer the tenant a lower-density living environment. Both the survey of low-rise tenants conducted for this study and the pilot project evaluation found that for those tenants with enough income to be able to choose an apartment on the basis of criteria other than simply rent, many cited a distinct preference for the low-rise form.

- Central location. As a result of their age, many older low-rise buildings occupy highly central sites. This characteristic of much of the big-city low-rise stock is important for two reasons:

Exhibit 1.5

CLOSE TO 58% OF LOW-RISE STOCK IS AT LEAST 25 YEARS OLD

Ontario Occupied Rental Stock, by Period of Construction, 1981

		1945 and Earlier	1946–1960	1961–1975	1976 and Later
Low-Rise	No.	90,270	77,075	95,195	27,815
	%	31.1	26.5	32.8	9.6
High-Rise	No.	6,150	40,885	308,105	81,020
	%	1.4	9.4	70.6	18.6
Other Rental	No.	143,240	82,650	100,735	37,690
	%	39.3	22.7	27.7	10.3

Source: 1981 Census of Canada

Exhibit 1.6

PRE 1960 LOW-RISE BUILDINGS ARE CONCENTRATED IN LARGE URBAN AREAS

Occupied Low-Rise Rental Stock, Ontario, 1981 (units)

Urban Areas		1945 and Earlier	1946–1960	1961–1975	1976 and Later
C.M.A.'S	No.	59,180	63,575	59,405	11,890
	%	30.5	32.8	30.6	6.1
NON-C.M.A's	No.	31,085	13,500	35,790	15,925
	%	32.3	14.0	37.2	16.5

* Census Metropolitain Areas– See Exhibit 1.3 for list of Ontario CMA'S

Source: 1981 Census of Canada

- The stock now plays an important role in determining the social mix of downtown areas, being one of the few sources of low-cost housing available in the inner city. Municipalities such as Toronto and Ottawa have made the preservation of a social mix in the downtown an important planning objective.

- As cities have grown around these older buildings the value of their sites has increased. While at the time they were developed the rental building may have represented the best economic use for the site, now other uses such as office or commercial space, or luxury residential may represent a more economically appropriate use for these sites.

B. OWNERSHIP PATTERNS

The uniqueness of the low-rise stock extends beyond its physical characteristics and into the characteristics of its owners; a group who play a key role in determining the current and future market role for these buildings.

When compared to other forms of rental accommodation the low-rise stock has an ownership profile that is made both distinct and, in some ways, unique by the significant presence of the small landlord.

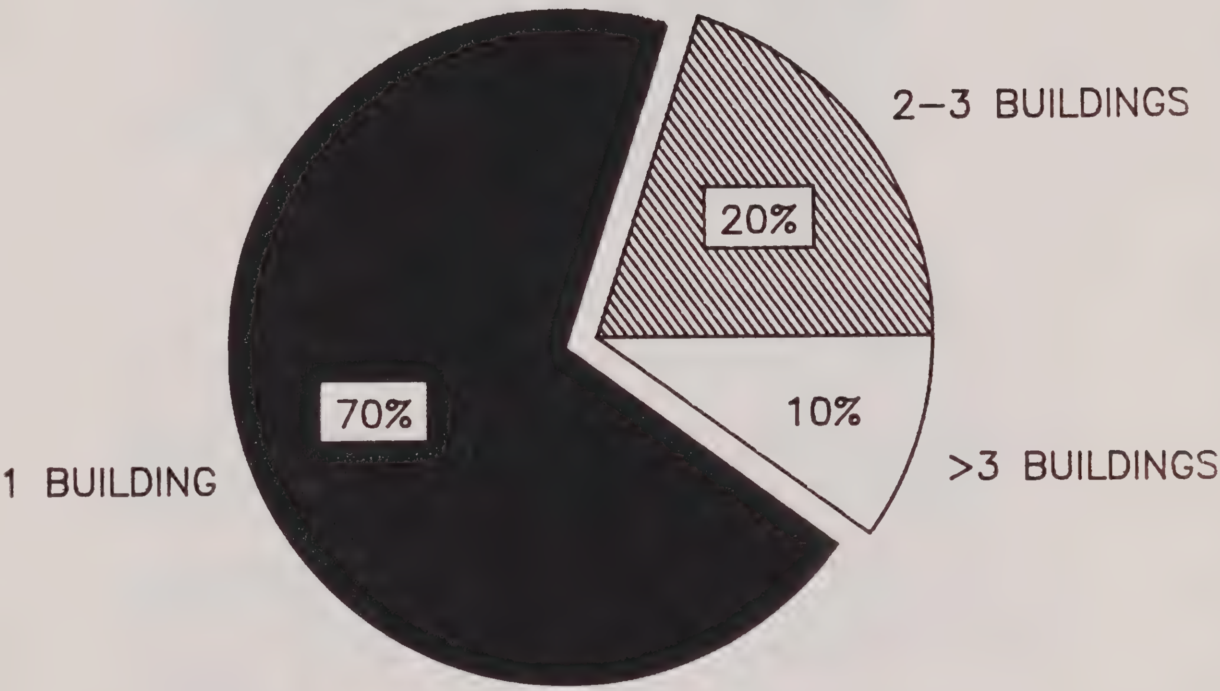
MANY LOW-RISE OWNERS ARE SMALL SCALE INVESTORS

The ownership profile within the low-rise sector shows that Ontario low-rise buildings are held in a variety of forms of legal ownership. What sets this stock apart from the rest of the rental housing sector in terms of ownership patterns, is the significant presence of small-scale investors, typically individuals or husband-wife partnerships who own only one rental building.

Exhibit 1.7

MOST LOW-RISE OWNERS OWN ONE BUILDING ONLY

Portfolio Sizes of Low-Rise Owners, Selected Centres, 1981



Source: Ministry of Municipal Affairs and Housing. Tesla Market Survey of Rental Buildings

- Low-rise owners have small portfolios. Portfolio sizes are characteristically small among low-rise landlords. Over 72% of all low-rise landlords own only one rental building (see Exhibit 1.7). This reflects in large part the strong presence of unincorporated landlords within this sector.

- Even corporate owners in low-rise stock are mostly small-scale. There is a great diversity of corporate owners in the low-rise stock. What is striking about these corporate owners, however, is that the majority of them are small-scale landlords. Over 50% own only one rental building and a further 25% own only 2-3 buildings (See Exhibit 1.8).

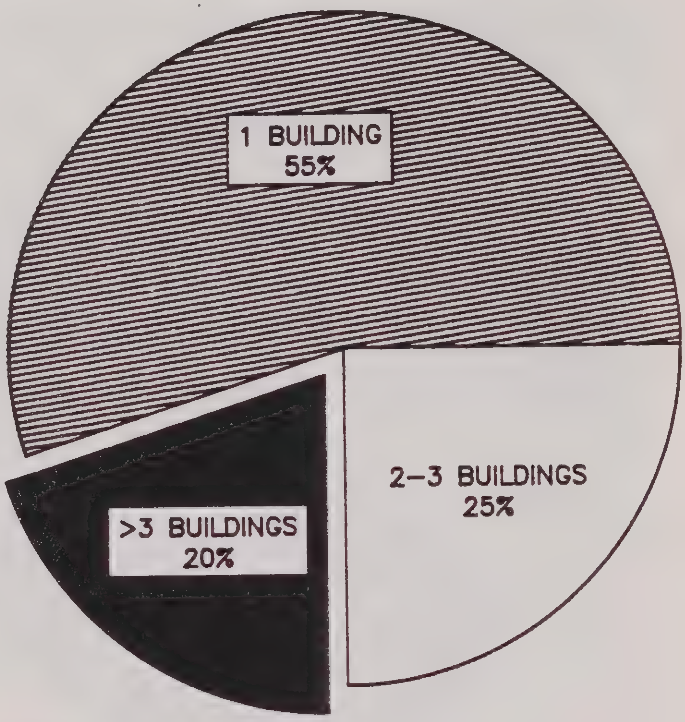
- Over 40% of Ontario's low-rise units are owned by individuals or husband-wife partnerships. Exhibit 1.9 provides a breakdown of the ownership of Ontario's low-rise stock. Compared to the ownership patterns within the entire Ontario rental stock the low-rise profile shows a more balanced distribution of ownership, with a significantly lower percentage of units owned by corporate landlords and a significantly higher percentage owned by smaller scale investors. The dominance of corporate ownership within the overall rental stock very much reflects the concentration of corporate ownership within Ontario's high-rise apartment buildings, the single largest source of rental accommodation in the Province.

- Ownership patterns vary by market area. The overall ownership profile displayed in Exhibit 1.9 is not characteristic of the low-rise stocks of all Ontario market areas. This study's survey of the low-rise stock in 3 major Ontario centres found that in Toronto, the most common type of owner was not individual or husband-wife partnerships but corporations. This is not the case in Ottawa and Hamilton however. In Ottawa, partnerships represent the most common form of ownership while in Hamilton, husband-wife co-owners dominate that area's low-rise stock.

Exhibit 1.8

EVEN CORPORATE OWNERS IN LOW-RISE SECTOR HAVE SMALL PORTFOLIOS

Portfolio Sizes of Corporate Low-Rise Owners
Selected Centres, 1980



Source: Ministry of Municipal Affairs and Housing. Teela Market Survey of Rental Buildings

SMALL LANDLORDS HAVE DIFFERENT MOTIVATIONS AND MANAGEMENT PRACTICES

To develop policies or programs that will be effective for the low-rise stock, it is necessary to understand the motivations and management practices of the owners in this sector. As will be shown below, the motivations and practices of the small-scale owners who own the majority of this stock differ significantly from those of the larger owners in this sector.

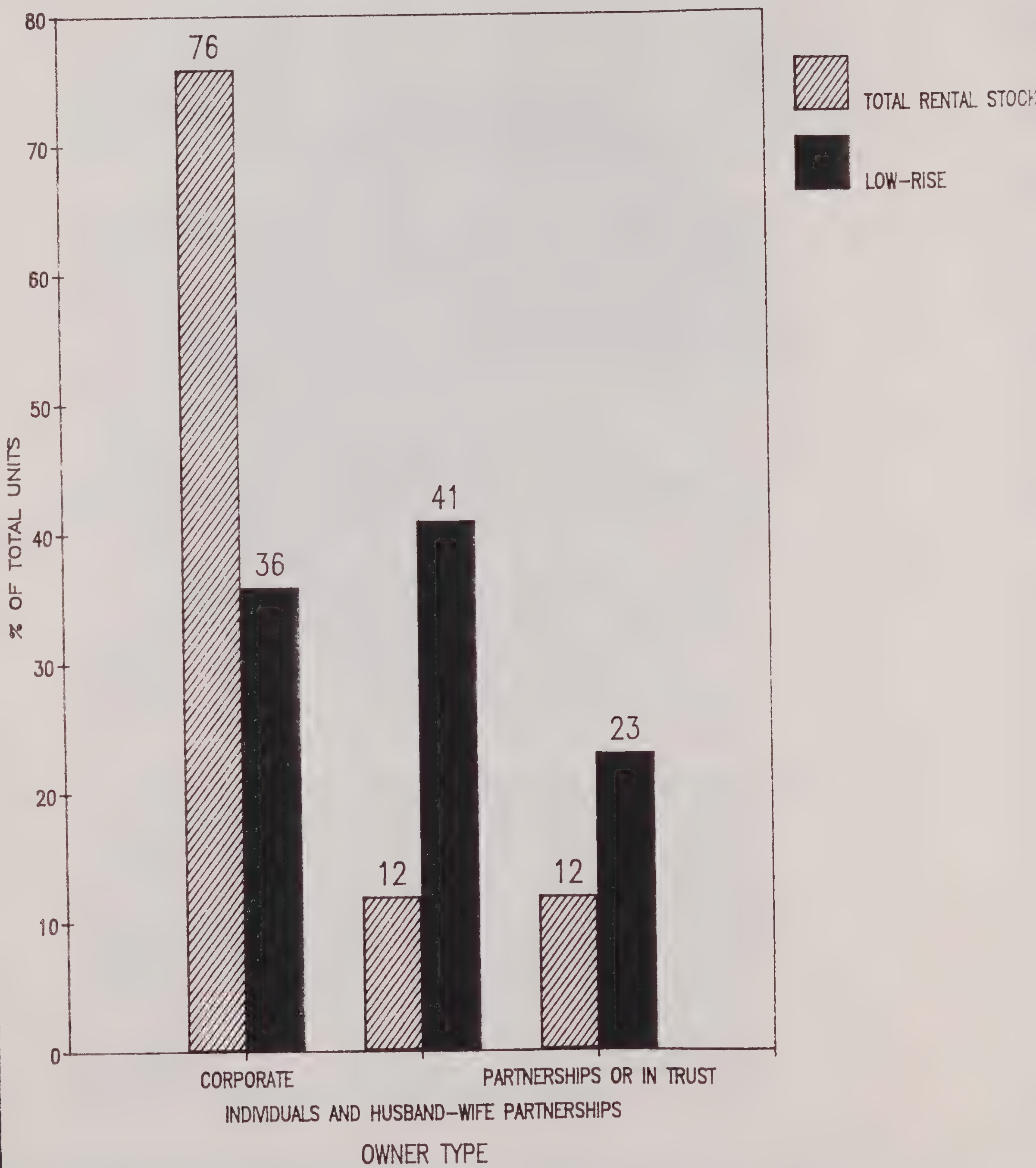
- Chief goal is to build up their equity through long-term ownership. The survey of low-rise owners conducted for this study found that the majority of smaller-scale owners in the low-rise sector purchased their buildings with the intention of building up their equity over the long-term as a form of pension plan. Their current management decisions with respect to the building also reflect this same motivation. In contrast, the larger owners in this stock, who tend to be corporations, were found to be far more likely to have bought the property for its redevelopment potential. Consequently, they tend to be less interested in long-term ownership. These motivations have translated into lower average debt ratios in buildings owned by the smaller individual and husband-wife owners compared to those owned by corporate landlords. (See Exhibit 1.10). Another factor explaining the lower debt levels among the smaller owners is the size of building they own. As can also be seen in Exhibit 1.10, individual husband-wife owners tend to own smaller buildings.

- Less formal management practices are common. There are a variety of ways in which the management practices of the small landlords who own the majority of units in this stock differ from those of the larger owners, who tend to be corporations. One important difference is the absence of formal written budget plans for their buildings. Approximately 63% of all low-rise owners surveyed had no such plans. This informal approach to budgeting also appears to extend to record keeping. In the evaluation of the conserve-a-unit pilot project low-rise landlords were found to have a surprising lack of detailed information on maintenance expenditures and other

Exhibit 1.9

MOST LOW-RISE BUILDINGS ARE OWNED BY INDIVIDUALS OR HUSBAND-WIFE PARTNERSHIPS

Legal Ownership of Low-Rise Stock, Selected Centres, 1980



Source: Ministry of Municipal Affairs and Housing. Teela Market Survey of Rental Bldgs. (6-29 units),Tor.,Ham.,Ott.

financial matters relating to the building. The use of sweat equity is also relatively common among this group. In 28% of all buildings surveyed, the owner had primary responsibility for maintenance.

- Small owners tend not to go to rent review. Exhibit 1.11 presents estimates of the percentage of units in eligible low-rise and high-rise buildings which have been involved in rent review hearings. These estimates indicate that the overall percentage of low-rise buildings which go to rent review is quite low and that it is consistently below the same figure for high-rise buildings. It is likely that the characteristically smaller, less sophisticated low-rise owners avoid the rent review process and its demands of time, money and documentation by either staying within the statutory limit or by negotiating a higher rent increase with the tenants. This is possible in practical terms when there is such a small number of apartments.

The owners of low-rise buildings are a key group to understand because of their influence over the stock. In particular this section of the report has shown that while there is a diversity of owner types in the low-rise sector, it is the small-scale owner, with his different motivations and management practices who owns the majority of these buildings.

At this point it is useful to shift the focus onto the other key group associated with this stock, its tenants.

EXHIBIT 1.10

SMALLER LANDLORDS HAVE LOWER DEBT ON BUILDINGS

AVERAGE RATIO OF MORTGAGE DEBT TO CURRENT PROPERTY VALUE, SURVEYED LOW-RISE OWNERS*	
HUSBAND-WIFE PARTNERSHIPS	20%
INDIVIDUALS	22%
CORPORATIONS	31%

SMALLER LANDLORDS ALSO OWN SMALLER BUILDINGS

AVERAGE BUILDING SIZE SURVEYED LOW-RISE OWNERS*	UNITS
HUSBAND-WIFE PARTNERSHIPS	10
INDIVIDUALS	12
CORPORATIONS	26

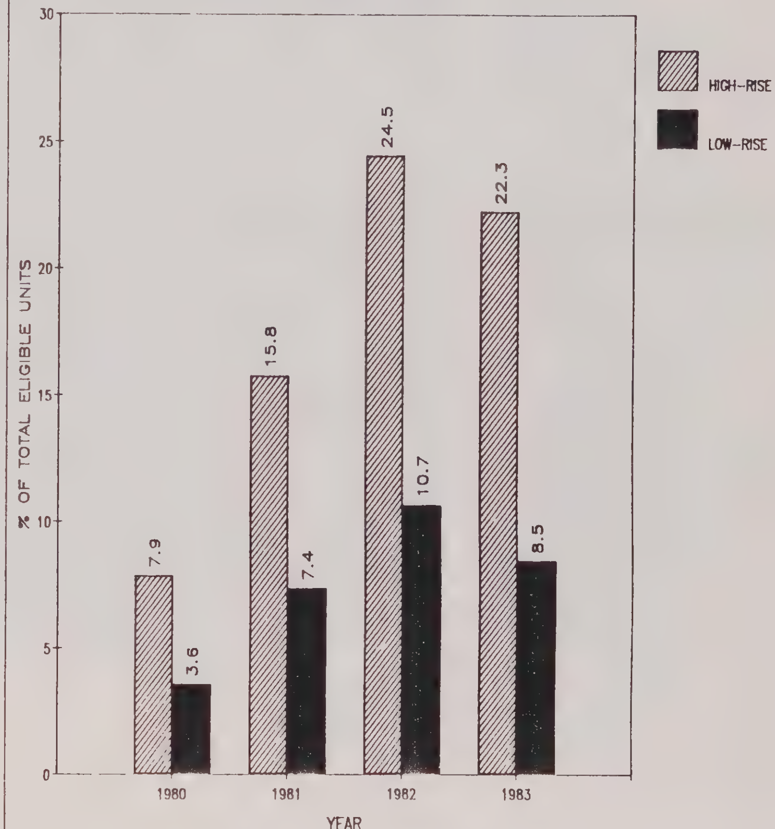
* Cities of Ottawa, Hamilton and Toronto

Source: EKOS Research Associates, The Coming Crisis: Low-Rise Apartments in Metropolitan Ontario, 1985

Exhibit 1.11

FEW LOW-RISE BUILDINGS GO TO RENT REVIEW

Percentage of Rental Units Involved in Rent Review Hearings
Ontario, 1980–1983



Source: Annual Reports, Residential Tenancy Commission, Ministry of Consumer and Commercial Relations.

C. TENANT CHARACTERISTICS

While the owners of low-rise buildings are important to understand because of the key decision-making role they play, it is equally important to understand the characteristics of the sector's other major constituency, its tenants. This section of the report will examine the age, household composition and economic circumstances of low-rise tenants in comparison to the characteristics of tenants found in other sectors of the rental stock.

LOW-RISE TENANTS ARE PRIMARILY YOUNG, UNRELATED HOUSEHOLDS

In the same way that the characteristics of an individual apartment building may appeal to a certain type of tenant, different segments of the rental stock, serve tenants who share characteristics that set them apart from the tenant population at large. The low-rise stock provides a good case in point.

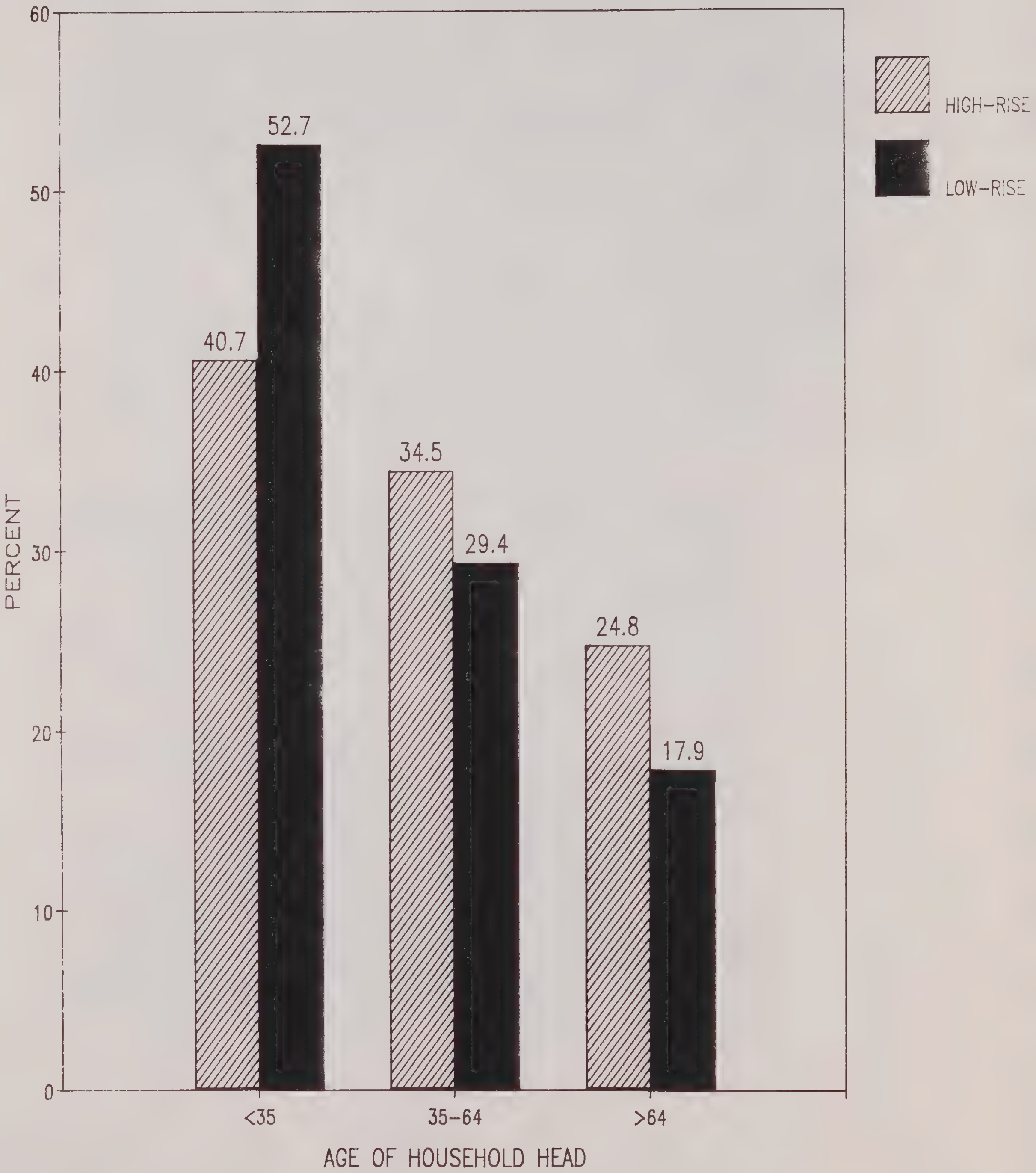
- Low-rise tenants are significantly younger than those in high-rise. Exhibit 1.12 shows that over 52% of household heads in the low-rise stock are headed by someone under the age of 35. This is the predominant age group among heads of households in low-rise buildings. In high-rise buildings only 41% of household heads, fall into this age range making low-rise households younger on average than those in the high-rise stock.

- Majority of households in low-rise buildings are not families. Exhibit 1.13 compares the household composition within the low-rise stock against the types of households found in Ontario's high-rise apartment buildings. Only minor differences exist between the two profiles with the majority of units in both stocks being occupied by non-family households comprised of single individuals or unrelated people sharing accommodation. Low-rise does have a slightly higher percentage of these households, however, as well as slightly more single parent households and marginally fewer married households with no children.

Exhibit 1.12

LOW-RISE TENANTS ARE MUCH YOUNGER THAN HIGH-RISE TENANTS

Age of Household Head, Ontario, 1981



Source: 1981 Census of Canada

MANY LOW-RISE TENANTS
HAVE LOW INCOMES

While the low-rise tenant population shows some distinctiveness in terms of its age and household composition, a more important distinguishing characteristic from a public policy perspective is the lower than average income levels found within a significant portion of the low-rise tenant population.

- Lowest income of all renter types. Exhibit 1.14 shows the distribution of 1980 household incomes in the different categories of rental stock in Ontario. A comparison of these distributions indicates that fully 9% more of low-rise tenants fell into the lowest income category than was the case with high-rise tenants. The same pattern holds true in comparison to the "other" rental stock category. Over 12% more of low-rise tenants fell into the lowest income grouping than did tenants from the "other" stock. The relatively low-income character of low-rise tenants is also consistent across all household types and age of household heads.

- Significant proportion of low-rise tenants live below the poverty line. There is very strong evidence that indicates that low-rise rental buildings are the principal source of non-subsidized housing for low-income households. The survey of low-rise buildings in Ottawa Toronto and Hamilton found that 41% of tenant households in this stock had incomes below the 1984 poverty lines for the appropriate household size.* The claims of this low-income tenant group that they had little or no choice to move into these buildings because of economic considerations, are easy to believe when their income levels are examined.

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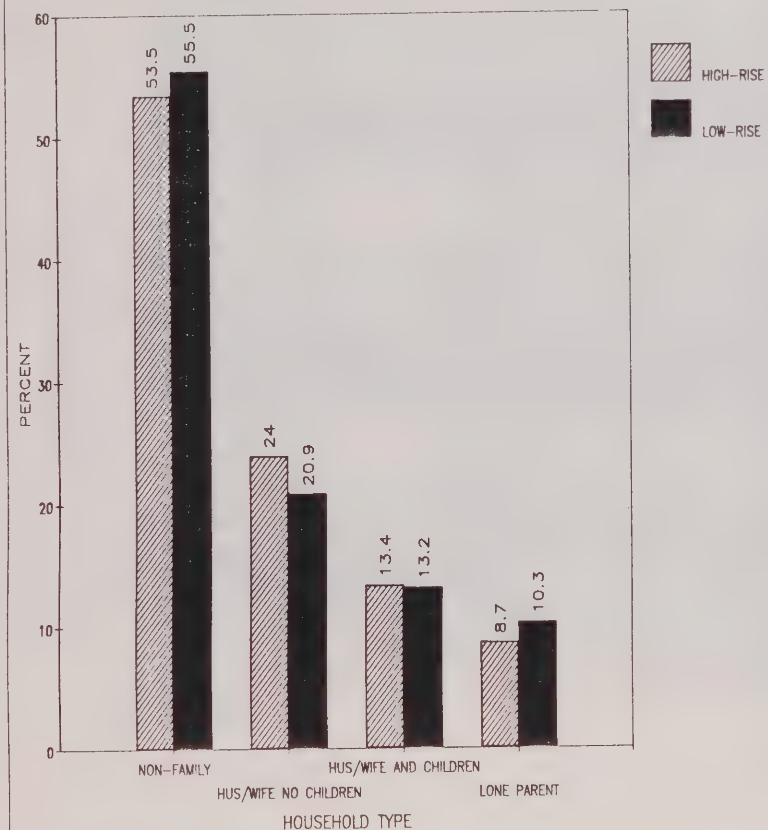
* The 1984 poverty lines set by Statistics Canada for a one and two person household in Ottawa or Toronto were $9,839 and $12,981 respectively. For Hamilton, these same figures were $9,345 and $12,321. For an explanation of the poverty line analysis see Appendix A.

Exhibit 1.13

AS IN HIGH-RISE, MAJORITY OF HOUSEHOLDS ARE NOT FAMILIES

Household Composition by Dwelling Type
Ontario, 1981

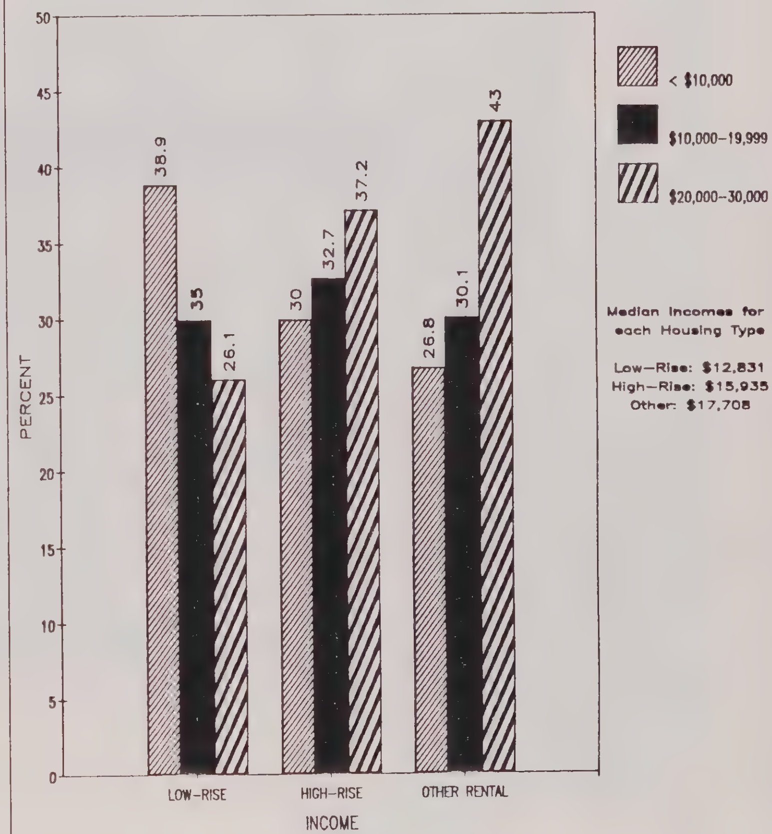


Source: 1981 Census of Canada

Exhibit 1.14

LOW-RISE TENANTS HAVE LOWEST INCOME OF ALL RENTER TYPES

Distribution of Household Income by Dwelling Type
Ontario, 1981



Source: 1981 Census of Canada

- <u>This group is made up of many different types of tenants.</u> There is no one group who represents the bulk of the 41% of low-rise tenants in the three surveyed market areas whose incomes are below the poverty line. While the figures in Exhibit 1.15 would seem to indicate that some of this group is made up of those low-rise tenants on some form of social assistance, others are likely to be employed workers with low-incomes. Some of these in turn would likely be students and other younger tenants whose incomes will eventually increase. Since this low-income tenant group would be the most sensitive to changing conditions in the stock, the Ministry may want to use the raw survey data to conduct a more intensive investigation of the characteristics of this group.

- <u>Low-incomes match low-rents</u>. The significant presence of low-income households in the low-rise stock is, in large part, a function of the rents charged in these buildings. The vast majority of low-rise buildings are subject to Provincial Rent Review. This factor, coupled with the age of this stock, makes it a relatively inexpensive rental form. A comparison of the distribution of 1981 rents in the different sectors of Ontario's rental stock shows that 29% more of low-rise units had rents in the lowest category than was the case with apartments in high-rise buildings. Approximately the same difference exists in comparison to units in the "other rental" stock (see Exhibit 1.16). More recent data collected from the three surveyed market centres provides further evidence of the relatively inexpensive rents in this stock. In Hamilton and Toronto only 18 and 19% of the total stock of one and two bedroom units in these cities had rents below the median rent of units in surveyed low-rise buildings. In Ottawa this figure was considerably higher at 38%. The vast majority of units renting below this median level would be in low-rise buildings.

- <u>Low-rise market role different in smaller centres</u>. From research in smaller centres across Ontario, it appears that the low-rise rental stock in these areas tends to have rents that are more in line with those in other forms of rental accommodation. One explanation for this is the

EXHIBIT 1.15

Number of Years as a Renter
Surveyed Low-Rise Households*

5 YEARS OR LESS	34%
5 -10 YEARS	29%
11-20 YEARS	23%
20+ YEARS	14%
	100%

Major Source of Income
Surveyed Low-Rise Households*

Employment Earnings	65.3%
Old Age Pension	11.1%
Unemployment Insurance	5.1%
Welfare	5.1%
Other	12.5%
	100.0%

* Cities of Ottawa, Hamilton and Toronto

Source: EKOS Research Associates, The Coming Crisis: Low-Rise Apartments in Metropolitan Ontario, 1985

relative youthfulness of the small-town low-rise stock relative to its "big-city" counterpart, making less of it subject to Provincial rent review legislation. With comparable rent levels between stock types, "small-town" low-rise is less likely to serve as distinct a tenant population in terms of income as it does in the larger urban areas.

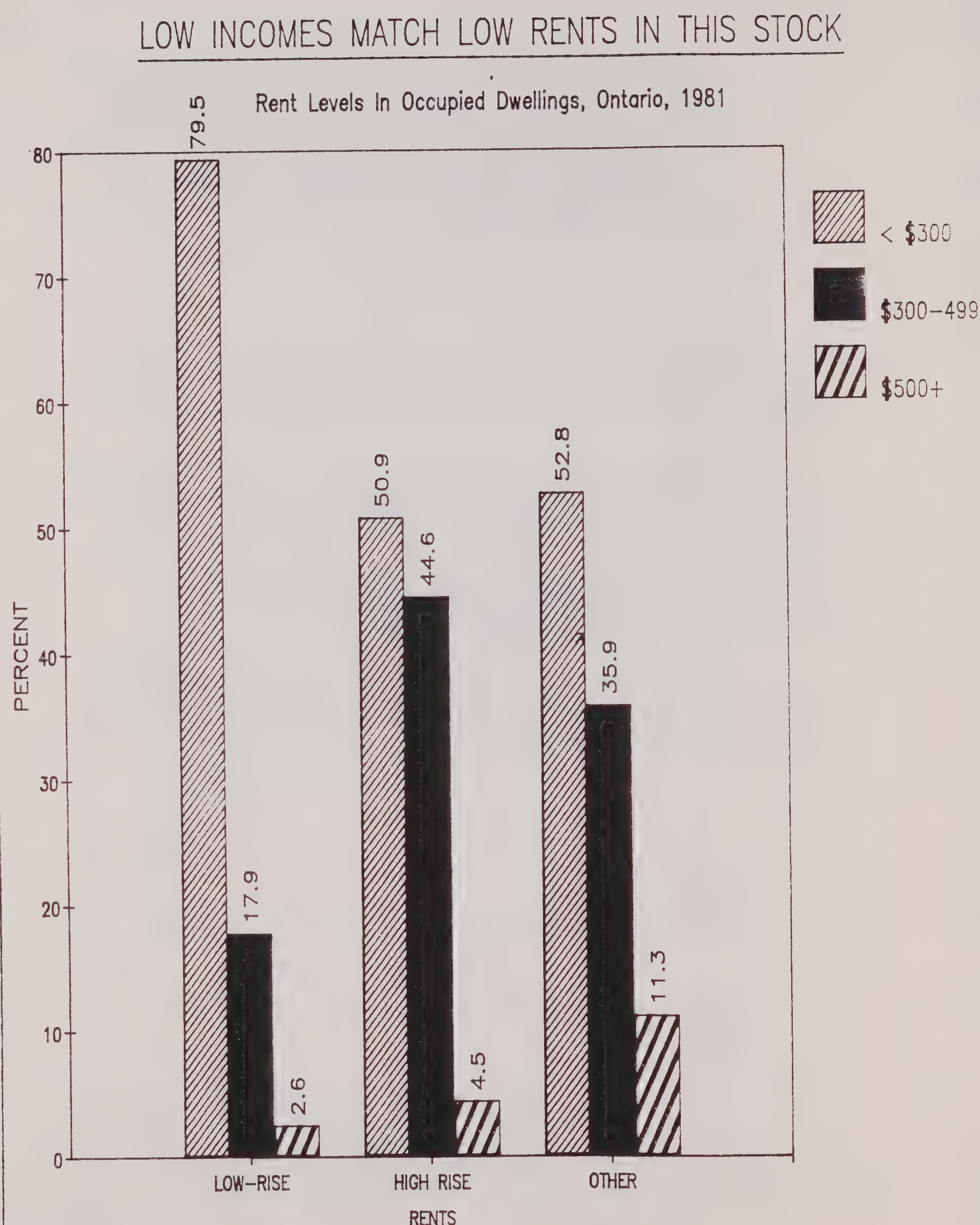
* * * * *

This chapter has been concerned with developing a basic understanding of the physical characteristics of the low-rise rental stock; and a profile of its owners and tenants.

This exercise has shown this stock to be unique in a number of ways; its high profile in the rental markets of both large and small urban centres, the relatively advanced age of a significant proportion of the stock, its important role as a source of investment for small landlords, and finally, its role as a key source of inexpensive housing for low-income households, particularly in the large centres.

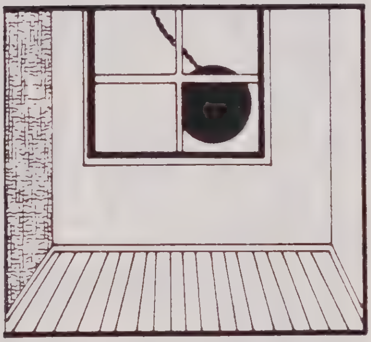
In the following chapter, we will begin to assess the future of the existing low-rise stock by examining the pressures it is experiencing from forces of physical deterioration and market pressures.

Exhibit 1.16



Source: 1981 Census of Canada

Pressures for Change



2. PRESSURES FOR CHANGE

Like any form of rental building, the low-rise stock does not exist in a static state but changes in response to various forces affecting it. These forces can come from within as a building ages and physically depreciates, or from without, as the role of the building or the building site gets re-defined under changing market conditions.

Specific characteristics of the low-rise stock, have caused these forces to be felt in a particularly strong or unique fashion within this sector. This chapter of the report examines these pressures in detail under the headings of physical condition, a medium-strength source of pressure for change in this stock, and market pressures, which represent a major threat to its current role in the rental sector.

Each of these forces is being felt most seriously in the low-rise stock of Ontario's major urban centres, in particular, Ottawa, Toronto and Hamilton. These municipalities are not the only areas where these problems exist but they likely represent the cities where they are most advanced. This is due to the fact that the buildings in these areas tend to be older and thus have been subject to the natural process of physical depreciation for a longer period of time. Adding to these pressures, however, are the market conditions and forces of growth and redevelopment exclusive to this size of urban area. These factors have placed the low-rise stock in Ontario's largest cities under greater pressure than those buildings in smaller centres.

A. PHYSICAL CONDITION OF LOW-RISE STOCK

At any given point in time, rental buildings can be thought of as having a remaining useful life. This is the number of years left before the physical condition of the building dictates that it be abandoned, demolished or renovated to the extent that it would no longer be regarded as the same building.

But a building's remaining useful life is not strictly a function of its age. Other factors such as the building's original design and construction, its owner's intentions, market conditions, and repair and maintenance practices, all play an important role in determining the physical condition of a rental building, and thus its remaining useful life.

The unique characteristics of the low-rise stock in terms of each of these factors have played a key role in creating the physical conditions currently found within this stock.

MANY LOW-RISE NEED MAJOR REPAIRS

Surveys of the low-rise stock in three major Ontario centres, coupled with evidence drawn from a review of the Province's pilot rehabilitation program, have determined that while the low-rise stock is in generally fair to good condition, a significant segment of it is now in need of rehabilitation.

- Approximately 1/4 of surveyed low-rise buildings found to be in need of rehabilitation. Exhibit 2.1 displays the distribution of ratings assigned by trained inspectors to the low-rise buildings surveyed in Ottawa, Toronto and Hamilton. Almost 25% of these buildings were assigned substandard ratings, indicating a need for major repairs in these buildings simply to bring them up to minimum property standards. Of the three areas surveyed, Toronto had the largest percentage of its low-rise stock in substandard condition and Ottawa the smallest.

EXHIBIT 2.1

ALMOST 1/4 OF SURVEYED LOW-RISE STOCK
FOUND TO BE IN NEED OF REHABILITATION

Distribution of Building Condition Ranking
Surveyed Low-Rise Stock*

	%	
Top Condition	2.0	
Very Good Condition	32.4	
Good Condition	23.5	
Fair Condition	18.6	
Poor Condition	17.6	IN NEED OF REHABILITATION
Very Poor Condition	5.9	

* Cities of Ottawa, Hamilton and Toronto

Source: EKOS Research Associates, The Coming Crisis: Low-Rise Apartments in Metropolitan Ontario, 1985

- <u>Physical condition of low-rise stock is worst in largest centres</u>. While hard data on the physical condition of the low-rise stock was only collected in Hamilton, Ottawa and Toronto, there is a variety of evidence to suggest that the problem of seriously deteriorated building conditions is unique to the "big-city" low-rise stock. Interviews with local building officials, landlords and planning staff revealed a concensus that the newness of the low-rise stock in smaller centres, has meant that these buildings are in better shape than their "big-city" counterparts. In addition, tenant perceptions of building condition as reported in the Census also support this finding (See Exhibit 2.2).*

SOME EXTERIOR COMPONENTS NEED REHABILITATION

The fact that a building is in need of major repair can have different implications for the remaining useful life of that building, depending on what the exact source of the need for repair is. If the repair need is structural in nature, or renders the building uneconomic to maintain, this can seriously reduce the building's useful life.

- <u>Surveyed low-rise stock is in generally good structural condition</u>. The survey of the low-rise stock in Hamilton, Ottawa and Toronto found no buildings which could be said to be structually unsound. This finding is important since the expense and difficulty involved in correcting structural problems is extremely significant.

- <u>But foundation walls and other exterior building components are a major concern</u>. While the overall structural soundness of the surveyed stock was found to be good, exterior foundation walls fared the worst of all components assessed for their structural integrity.

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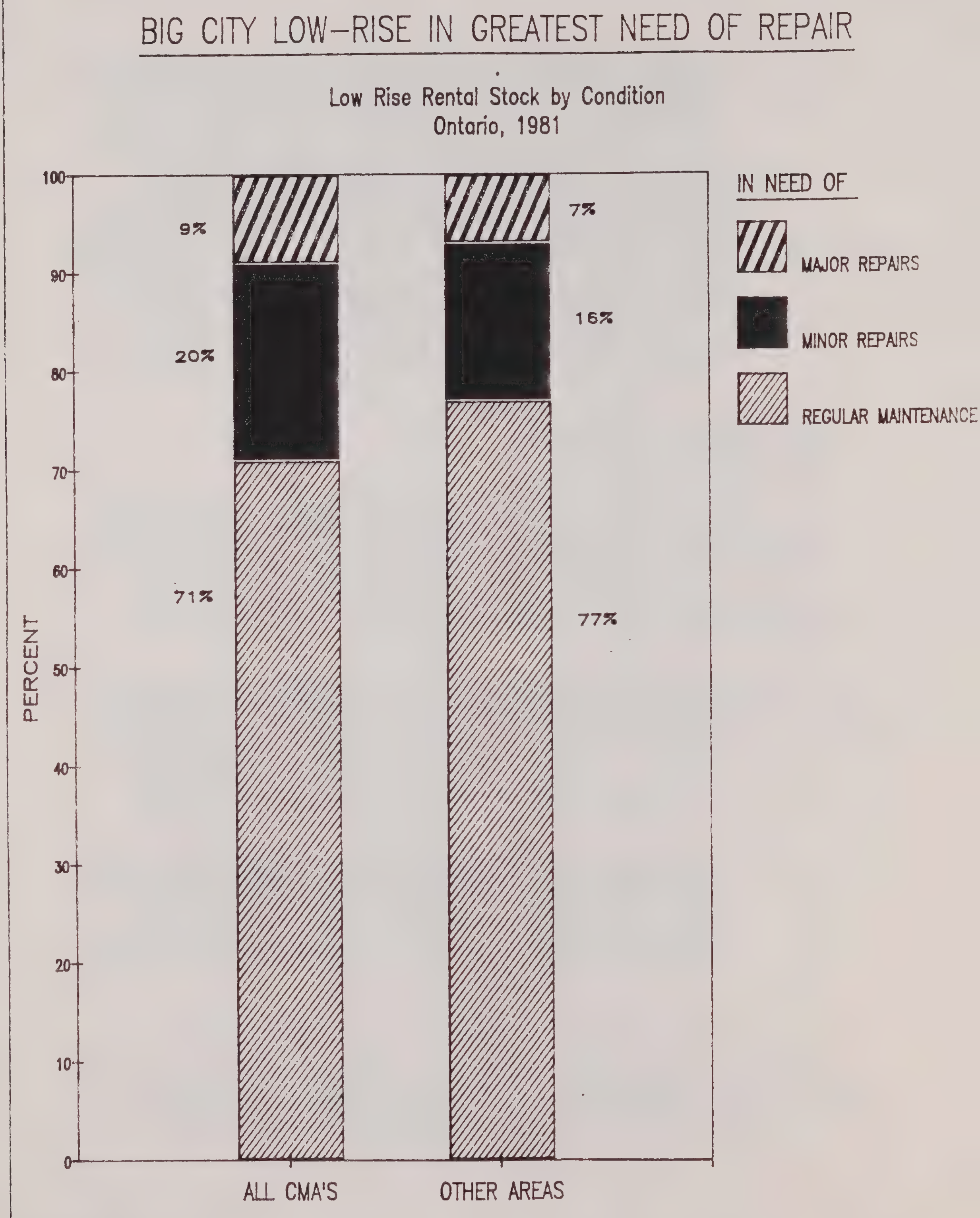
* Tenant perceptions of need for repair are generally considered to be unreliable, but do have some utility in comparative analysis.

Exhibit 2.2



Source: 1981 Census of Canada

Exhibit 2.3 shows that 17% of all surveyed buildings had foundation walls assessed as being structurally unsound. Exhibit 2.3 also shows that other exterior building components including attached structures such as balconies and stairways, doors and windows and wall cladding, were found to have major rehabilitation needs. These needs do not relate to their structural integrity but rather to surface conditions. These types of rehabilitation needs are the least likely to be addressed because they can involve considerable expense without generating revenue or significant increases in property value. In the long run, however, if these exterior deficiencies are not addressed the problems could become structural in nature as a result of moisture penetration.

ENERGY EFFICIENCY ALSO A MAJOR CONCERN

There are two major problems in this stock with respect to energy efficiency; low levels of insulation and a growing obsolescence of the heating systems found in these buildings.

- Low-rise buildings are poorly insulated. As can be seen in Exhibit 2.3 insulation received the worst assessment of all building components. This is largely explained by the flat-roof, solid masonry construction which characterizes much of this stock and which imposes limitations on attempts to improve insulation levels in these buildings.

- Many heating systems are now obsolete. Of the buildings surveyed, 95% were heated by steam or hot water pumped to radiators, over 1/4 of which were rated as being in need of major repair (See Exhibit 2.3). The problem of obsolete heating systems largely reflects the age of the low-rise stock and can also be regarded as primarily a "big-city" problem. Across all Ontario C.M.A.'s, 62% of low-rise buildings were heated in this manner, while outside of the C.M.A.'s, where the low-rise buildings are of a more recent vintage, only 30% are heated with steam or hot water.

EXHIBIT 2.3

EXTERIOR BUILDING COMPONENTS, INSULATION AND HEATING SYSTEMS IN GREATEST NEED OF IMPROVEMENT

Distribution of Inspector Ratings of Selected Building Components, Surveyed Low-Rise Stock*, 1985 (percent of buildings)

	Top	Very Good	Good	Fair	Poor	Very Poor	Totally Replace
	%	%	%	%	%	%	%
Exterior							
Attached Structures	4	12	23	23	29	9	Ø
Basement and Foundation Walls	1	29	34	19	16	1	Ø
Wall Surface/Cladding	5	23	17	21	27	6	1
Wall Structural Condition	7	4Ø	31	15	5	2	Ø
Doors and Windows	2	21	23	21	21	12	Ø
Soffits and Fascia	2Ø	2Ø	18	13	23	6	Ø
Roof Structure	19	19	42	16	Ø	2	2
Interior							
Basement Floor	2	24	31	18	19	4	2
Foundation	Ø	27	45	18	1Ø	Ø	Ø
Drainage/Waterproofing	1	3Ø	34	15	13	6	1
Floor Surfaces	12	24	28	13	17	4	2
Floor Structure	11	39	28	14	6	1	1
Stairs	11	32	28	16	11	2	Ø
Walls and Ceilings	12	2Ø	27	6	29	5	1
Insulation	Ø	6	36	4	2	15	27
Mechanical							
Heat Source Condition	1Ø	26	24	1Ø	24	5	1
Heat Distribution System	5	25	27	18	19	5	1
Electrical System	2	2Ø	47	25	6	Ø	Ø
Plumbing Condition	1	2Ø	34	34	1Ø	1	Ø

IN NEED OF REHABILITATION

* Cities of Ottawa, Hamilton and Toronto

Source: EKOS Research Associates, 1985

MANAGEMENT BEHAVIOUR INFLUENCES BUILDING CONDITION

As described earlier, age is not the only determinant of the physical condition of a rental building. The intentions and practices of owners also exert an important influence on what state the building is in.

As part of the survey conducted for this study, landlords were asked what their intentions for their buildings were. The buildings owned by landlords intent on selling, redeveloping or renovating to luxury standards were found to be in poorest physical condition. While this may reflect the condition of the building upon purchase, it is logical to suggest that these types of intentions would precipitate minimal repair and maintenance activity on the part of owners.

A "crisis management" approach to repair and maintenance is also contributing to the poor condition of segments of this stock. Over half (55%) of surveyed landlords were found to be doing repairs on an emergency basis. In addition, cash availability was the key factor determining when another 15% of low-rise landlords did their repairs. This "crisis management" approach is significantly correlated with poor building condition.

Why are these practices so common amongst owners of low-rise buildings? To some degree, these practices exist as result of of the lack of management sophistication found among the small, non-professional landlords in this sector. In the majority of cases, however, they appear to be a response to the existence of rent review. Almost 75% of landlords surveyed held the perception that the costs of maintenance and repair could not be recovered from rents and that this was an important obstacle keeping them from maintaining their buildings at the quality level they would like to obtain.

PHYSICAL DETERIORATION POSES THREAT OF LOSS

The rehabilitation needs found within much of the "big-city" low-rise stock, coupled with the bare minimum "crisis-management" levels of repair and maintenance currently being invested in many buildings poses a very real threat to the continued existence of some of this stock. Landlords' intentions with respect to future investment in repair and maintenance give very little cause for optimism that this pattern might be reversed.

- Up to 16% of Toronto, Ottawa and Hamilton's low-rise buildings could be lost to physical deterioration in the medium-term. In the absence of any significant changes in rental market conditions or any major intervention by government in terms of rehabilitation assistance, it is estimated that up to 16% of all low-rise buildings in the cities surveyed for this study could be lost through physical deterioration over the next 10 years*. The stock most likely to succumb to these pressures is older buildings. The low-rise buildings in the worst condition also happen to be larger, on average, than those in good condition. Thus, the 16% which could be lost to physical deterioration could represent greater than 16% of all low-rise units.

- Potential for loss escalates over longer-term. Looking a further 10 years down the road, it is estimated that losses to physical deterioration in the low-rise stock could escalate significantly. Approximately 46% of the surveyed stock in these cities was assessed as having a remaining useful life of twenty years or less or was deemed to be in substandard condition.

The loss of low-rise buildings, through the process of aging and physical depreciation has serious implications for owners, tenants, governments and local communities. These implications stem from the fact that under current market conditions it is extremely difficult to replace this stock with new rental units at rent levels that are even close to those found in the older low-rise apartment buildings. The next chapter will examine these implications in greater detail.

However, there are other forces which have resulted from market conditions, which also threaten to erode the role of Ontario's big-city low-rise stock as an important source of low-cost rental housing. The dynamics of these forces and their impacts on the low-rise stock are discussed below.

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* EKOS Research Associates, The Coming Crisis: Low-rise apartments in Metropolitan Ontario, 1985

B. MARKET PRESSURES ON LOW-RISE STOCK

The pressures created by physical deterioration are less immediate in nature, smaller in magnitude and politically less volatile than those market pressures which threaten a significant proportion of the low-rise stock. These forces have precipitated the redevelopment, conversion or luxury renovation of many low-rise buildings in Ontario's largest cities. Each of these outcomes can be thought of as creating a loss within this stock since each outcome either removes the building from the rental market or changes its important role as low-cost rental housing. This section examines the factors underlying these market pressures, the extent of change they have produced to date and what future impact they will have on the low-rise stock.

FOUR FACTORS UNDERLIE MARKET PRESSURES

The market pressures on the low-rise stock stem from the interplay of four basic factors. As is shown in Exhibit 2.4 the age of these buildings is the central underlying factor but does not, in and of itself, explain all the dynamics of the market pressures.

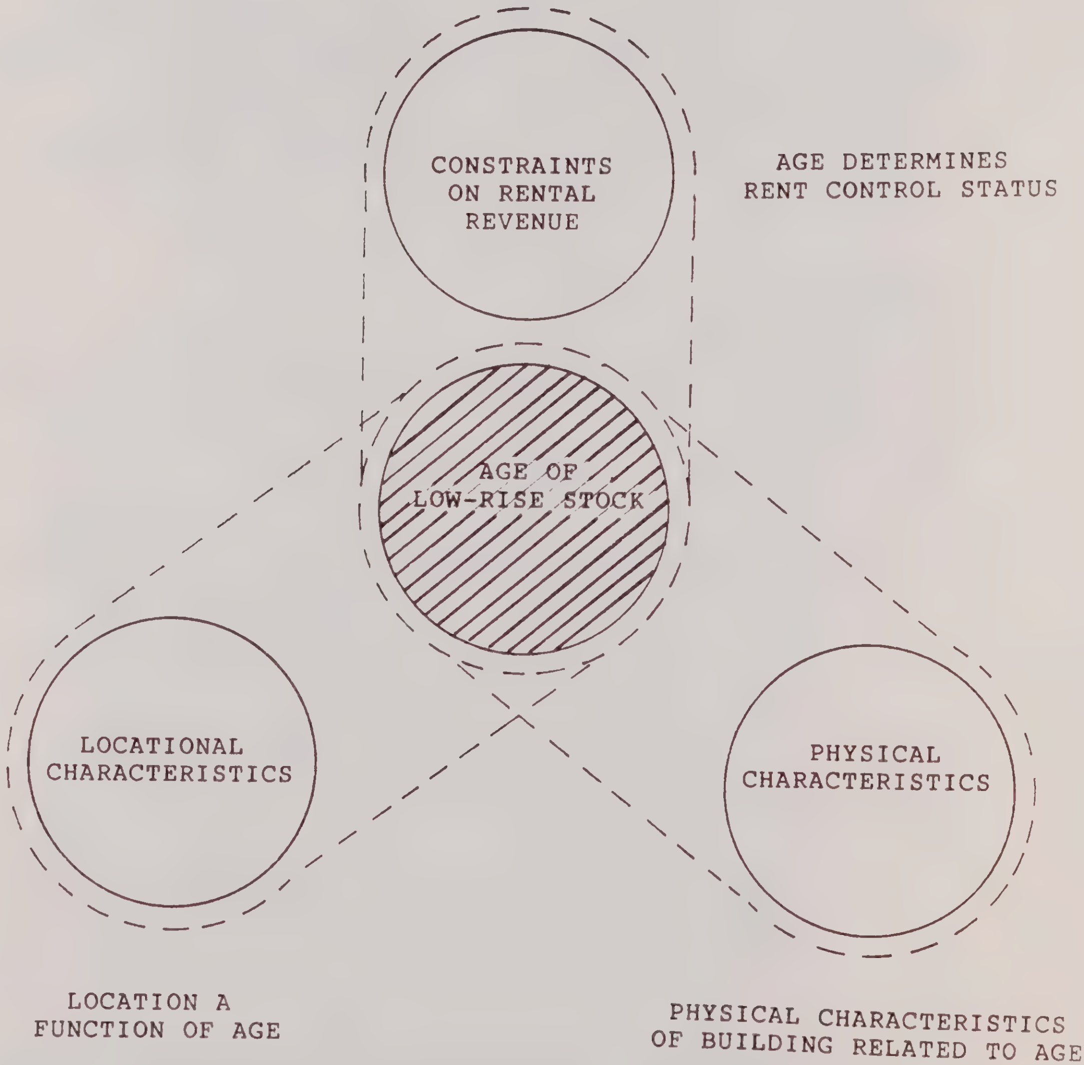
1. Age is critical factor. Any discussion of the market forces threatening the low-rise stock must be prefaced with the recognition that many of these buildings are in a mature state. While other factors may have caused portions of the "big-city" low-rise stock to physically depreciate at an accelerated rate, the fact remains that 30% of the buildings in these areas are over 50 years old. With this amount of "mileage" on them, many are simply reaching the end of their useful lives.

2. Constraints on revenue are destablizing low-rise sector. While many low-rise owners have succeeded in avoiding going to rent review, they are not exempt from the restrictions it places on their rent and consequently their revenues. This has left some landlords looking for an "out" in order to realize the higher return that is necessary to justify such an active investment as owning and operating a rental building as opposed

EXHIBIT 2.4

FOUR FACTORS UNDERLIE

MARKET PRESSURES ON LOW-RISE STOCK



to more passive forms of investment such as bonds or investment certificates. This has lead to the sale of properties, luxury renovations, condominium conversions, and demolition and redevelopment of low-rise buildings.

3. Location of older buildings adds to redevelopment pressures. With much of the "big-city" low-rise stock dating back to before the Second World War, many buildings now occupy highly central site whose current density provisions exceed the existing built up level. This means that these siites possess considerable redevelopment potential. For the particularly well-located low-rise buildings, which tend to be older, the rental use may no longer reflect the best economic use for the site as the city has grown and changed around it. In such cases the value of the land itself often exceeds the net present value of the future stream of rental revenue that can be expected from the building. This creates a disincentive for the owner to continue to own and operate the building and an incentive to pursue redevelopment of the site or to sell to someone intent on realizing this potential.

4. Building and lot size enhance redevelopment potential. Some of the other physical characteristics of the low-rise stock enhance its potential for redevelopment. Being a smaller scale rental form (in comparison to high-rise for example) low-rise buildings are generally less expensive to demolish yet their lot sizes are still large enough to make it economically feasible to develop the site for a non-residential use.

LOW-RISE STOCK CHANGE: CITY OF TORONTO

Due to lack of data it is impossible to document the extent to which demolitions, luxury renovations or conversions have taken place in Ontario's low-rise stock to date. It is possible, however, to study some of the changes which have taken place in the City of Toronto's low-rise apartment stock through use of the City's Housing Occupancy Analysis System (HOAS). As the largest municipality in Ontario, and as the City with the oldest and perhaps most vulnerable low-rise apartment stock, a case study of Toronto's low-rise buildings can provide some useful insights.

EXHIBIT 2.5

CITY OF TORONTO HOUSING STOCK

(Units)

Building Classification	1977	1984
Owner Occupied	72,237	83,575
Tenant Occupied	120,322	136,906
Owner-Tenant Occupied	40,817	31,468
Total Housing Stock	233,376	251,949

* Rental buildings containing 3 - 30 units accounted for 24,407 of the total units in tenant occupied buildings in 1977 and 23,271 of the total in 1984.

Source: HOAS, Planning and Development Department, City of Toronto

For this analysis, all rental buildings in the City of Toronto in 1977 which met a "low-rise" definition set through the HOAS system were identified.* As is seen in Exhibit 2.5, these buildings represent a small, but important subset of the overall housing stock in the City of Toronto. The 1984 assessment records for these buildings were then examined to see if any changes had taken place over the 1977-1984 period. It must be remembered that this analysis applies only to a particular segment of the City's low-rise stock due to the definitional limitations set by assessment data, and that the findings are intended to communicate a sense of the magnitude of change taking place as opposed to documenting the actual number of all low-rise buildings which changed status over the period under examination.

Significant Demolition and Conversion Has Occurred

Exhibit 2.6 maps out the changes that took place in rental buildings with 3 - 30 units in the City of Toronto between 1977 and 1984. Over this period these buildings experienced significant demolitions and conversions to other tenures.

- Approximately 5% of sample of 1977 low-rise buildings were demolished or converted to non-residential uses by 1984. Of the 5,445 3 - 30 unit rental buildings which existed in the City of Toronto in 1977, 250 had been demolished by 1984. This represents 5% of the segment of the 1977 stock under study. These buildings contained 1,187 units. In addition a further 180 buildings containing 706 units were vacant in 1984, likely awaiting demolition, conversion or luxury renovation. Each of these outcomes would either cause the building to disappear or undergo a significant change in its market role. Together the demolished buildings and those sitting vacant represent 8% of the sampled 1977 stock.

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* The definition of low-rise had to be based on the number of units in a rental building as a result of the unreliability of building storey data in the assessment records. The 3 - 30 unit definition used in this analysis is thought to fit at least 75% of the low-rise stock as it has been defined in this study.

EXHIBIT 2.6

SIGNIFICANT CHANGES HAVE OCCURRED IN SAMPLE OF CITY OF TORONTO LOW-RISE STOCK

Rental Buildings with 3 - 30 units in 1977

Buildings	Units
5,455	24,407

Same Buildings in 1984

	Buildings	Units
Converted to Condominiums or Ownership	476 9%	1,250 5%
Demolished or Converted to Non-residential Uses	250 5%	1,187 5%
Vacant: Likely Awaiting Demoliton, Conversion, or Luxury Renovation	180 3%	706 3%
Stayed as Rental	4,549	87%

Source: PBA analysis of HOAS Data, City of Toronto

- A further 476 of the sample of low-rise buildings underwent a change in tenure. Exhibit 2.6 also illustrates the extent to which this stock has undergone changes in tenure. Of the original 5,455 3 - 30 unit rental buildings in the City of Toronto in 1977, 476 changed from being tenant occupied to being owner occupied. These buildings represent condominium conversions or de-conversions of smaller rental buildings, particularly "plex" structures, to single occupied dwellings, and account for 1,250 units or 5% of the original total of 24,407 units.

Key Changes Can't be Measured

While assessment data analyzed through HOAS can identify the extent of loss due to demoliton and tenure changes in the sampled low-rise stock, it cannot provide any insights into other key sorts of change which have been taking place in this sector. Luxury renovations, likely the most significant source of change, cannot be picked up by HOAS nor any other readily available data source.

In order to address the problems being experienced in the low-rise sector, it is critical that data systems be developed and put in place which would allow municipalities to monitor the changes which are taking place.

CONTINUED CHANGE ANTICIPATED DUE TO MARKET PRESSURES

The case study has demonstrated the extent to which demolitions and conversions have already taken place in the low-rise stock. Looking to the future, many different factors could affect how many more buildings will undergo these or other changes such as luxury renovation. While the future is difficult to predict valuable insights can be gained by analyzing the plans espoused by owners of the buildings surveyed in Ottawa, Toronto and Hamilton.

- Redevelopment and major market role changes expected to affect 14% of Toronto, Ottawa and Hamilton low-rise stock over next 10 years. The survey of low-rise landlords conducted for this study revealed that a significant number intend to pursue options for their buildings which would

result in either the rents increasing significantly, or the building being demolished or converted to another use. Using conservative assumptions regarding the likelihood of these intentions being realized, it has been estimated that 14% of the low-rise stock could be lost over the next 10 years.* This will affect all forms of low-rise rental buildings including both the "plex" structures and walk-up apartment buildings.

- Physical deterioration will add to this total. When the loss that is anticipated as a result of the physical deterioration of the low-rise stock is added to this figure, as much as 30% of existing low-rise buildings could be affected by some form of significant change over the next 10 years.*

Even allowing for the difficulties involved in putting a number on future change in this stock, the degree of dissatisfaction which exists among owners of existing low-rise buildings in these market areas, in and of itself, indicates that considerable change is likely to take place. Once again, it should be emphasized that while these problems are likely to be most prevalent in these centres, other major cities in Ontario are experiencing these trends although probably to a lesser degree. The following chapter of the report examines in detail the implications of such changes within the low-rist stock.

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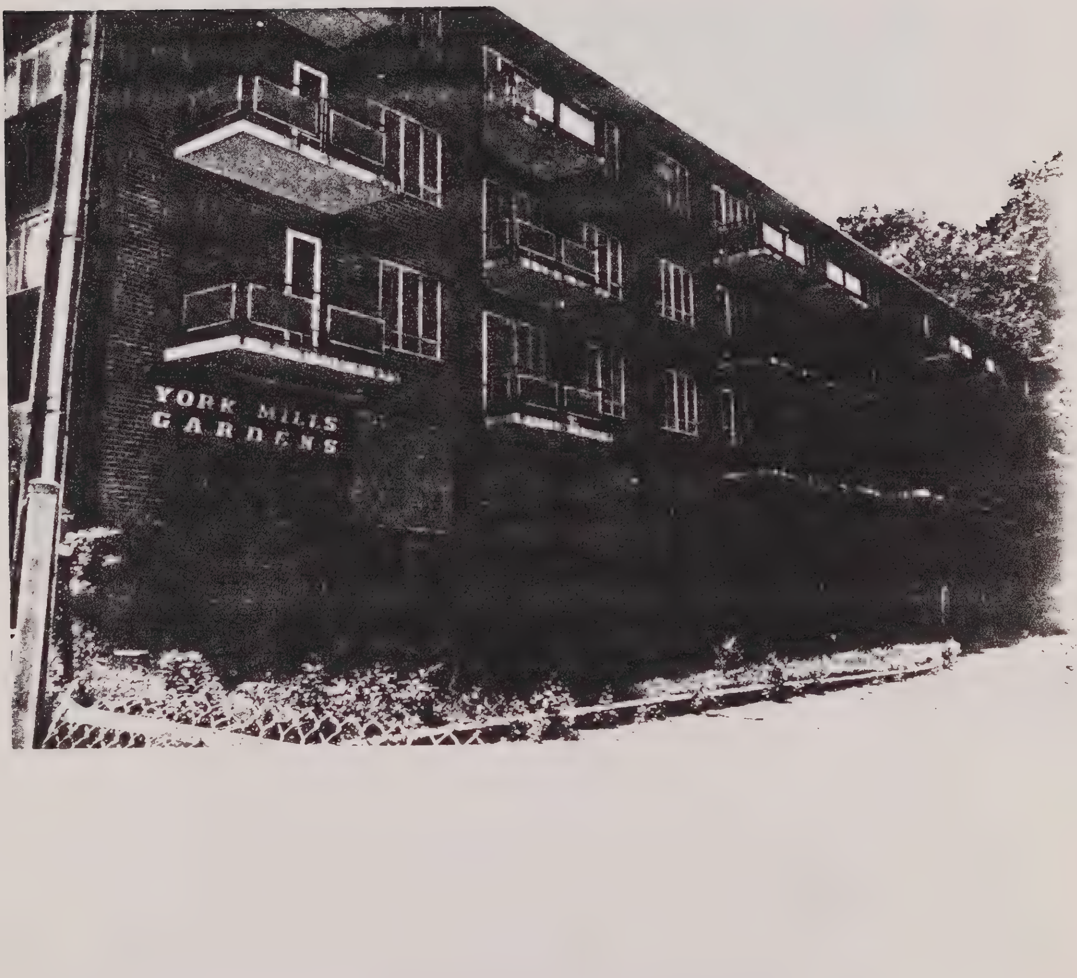
* EKOS Research Associates, 1985, See Appendix A for an explanation of how these figures were derived.

Implications of Change


YORK MILLS
GARDENS

3. IMPLICATIONS OF CHANGE

The demolition, conversion, luxury renovation and physical deterioration taking place in the low-rise stock of Metropolitan Ontario has implications for four groups. The first two groups, tenants and owners, are the immediate constituents of this stock and will thus feel the impacts of change most directly. Municipalities and senior governments also have a stake in the trends taking place in the low-rise sector as a result of the community and social impacts they produce.

AFFORDABILITY AND AVAILABILITY PROBLEMS FOR TENANTS

Demolitions, conversions or luxury renovations hold major implications for both existing and future tenants in this sector. For tenants currently living in low-rise buildings, displacement would present them with serious affordability problems.

The survey of low-rise buildings in Ottawa, Toronto, and Hamilton determined that 41% of surveyed households had incomes below the poverty line after adjusting for household size. At this level of income, these households have few alternatives within the private housing market and will almost certainly end up paying a rent that represents more than 25% of their gross household income if they had to stay in the private rental market. Exhibit 3.1 shows how few privately owned apartments are available at rents that are affordable to these households. It is likely that the majority of these apartments are themselves in low-rise buildings. However, since vacancy rates in the rent controlled stock are markedly lower than those in the newer uncontrolled stock, it is unlikely that many of these units are vacant and therefore available to absorb households displaced from other low rise buildings.

For future tenants, the impact is one of availability of rental accommodation. The physical loss of low-rise buildings through demolition, coupled with the market loss effects of luxury renovations and conversions, both remove apartments from the overall rental stock and reduce the amount of a specific rental alternative. For future tenants in general, and low-income renters in particular, this will mean a reduction in the choices available to them in the rental housing markets of

EXHIBIT 3.1

FEW APARTMENTS AFFORDABLE TO HOUSEHOLDS AT POVERTY LINE

Estimates of Apartments Available at 25% affordability line to Households with Poverty Line Incomes, Selected Centres*
1984

Poverty Line 1984: 1 Person Household	Poverty Line 1984: 2 Person Household		1 Person in 1 Bedroom Apt.	2 Persons in 2 Bedroom Apt.
		Hamilton		
$9,345	$12,321	No. of units which are affordable	251	230
		%of overall apartment stock	1.5%	1.4%
		Ottawa		
$9,839	$12,981	No. of units which are affordable	15	47
		% of overall apartment stock	0.1%	0.3%
		Toronto		
$9,839	$12,981	No. of units which are affordable	56	140
		% of overall apartment stock	0.1%	0.2%

* Privately Initiated Apartment structures of six units or more.

Source : Peter Barnard Associates calculations based on Statistics Canada Low-Income Cut-Offs and C.M.H.C. Rental Apartment Vacancy Surveys, April 1984

Ontario's major cities. One possible impact of such a restriction in supply would be increased demand for low-cost units which contravene zoning and building regulations. These illegal units are most often occupied by the younger type of household found in the low-rise stock.

ENVIRONMENT FOR OWNERSHIP WILL CHANGE

Like the tenants of low-rise buildings, owners are directly affected by any changes taking place within this stock. The impacts of continued physical loss of low-rise apartments through demolition, market "loss" through luxury renovation and conversions will result in a changed environment for ownership in this sector.

- Ownership environment could become increasingly confrontational. Attempts at demolishing, renovating, or converting low-rise rental buildings in Ontario's major cities have sometimes produced confrontations between owners and tenants. These confrontations have also involved municipal governments whose concern over the loss of this affordable housing stock has moved them to try to enact by-laws which attempt to control what changes can be made to these buildings. With continued loss of this stock, the environment for ownership in this sector could become increasingly confrontational making ownership less attractive to both existing and prospective owners of low-rise buildings.

- Owner profile in low-rise sector will change. As was discussed in the previous chapter, the age, location, physical characteristics and revenue situation of some low-rise buildings make other uses for the property financially more attractive. However, the small landlords who currently own the majority of this stock are for the most part either not interested in pursuing these alternatives themselves or lack the resources to do so. For this type of landlord, the alternative to continued ownership is to sell to an owner with both the intentions and the resources to transform the building into a use which will realize a higher return. This type of change in ownership will be most apparent in the big-city low-rise stock where market pressures and problems of deteriorating building conditions are at their greatest.

MUNICIPALITIES WILL FEEL COMMUNITY IMPACTS

There are a variety of ways in which continued physical and market loss of low-rise rental buildings will affect the major Ontario municipalities.

Most importantly, the loss of inexpensive low-rise rental buildings means that Ontario's major municipalities are facing a gradual erosion of an important component of their affordable rental stock. Construction of new rental accommodation has been declining and new units cannot achieve rent levels comparable to those in the existing stock that is being lost. With many of the oldest and most vulnerable low-rise buildings being so centrally located, inner city areas are the hardest hit, creating a concern in some cities over the changes this brings to the social fabric of inner-city neighbourhoods. The increased demand for illegal units which such displacement may generate, should also be a concern of municipalities.

Changes in the low-rise stock will also increase the demand for certain municipal services. As buildings are demolished, converted, or luxury renovated, displacement of low-income tenants in this stock will add to the waiting lists for municipal non-profit housing, since their incomes restrict their options within the private rental market. Under current programs, however, only a small proportion of these tenants would be eligible for assisted housing because of their age or household type. This will create added pressure on municipalities to offer alternatives to existing programs. Displacement of low income tenants could also add to the demand for social support services such as daycare, if, for example both parents had to work to be able to afford what would most likely be higher rent in a different building.

Finally, municipalities should be concerned about the impacts the deteriorating building conditions in the low-rise stock have on neighbourhood quality. The survey of low-rise buildings conducted as part of this study found that buildings which were going to be demolished, redeveloped or undergo some other major change to their current market role, were far more likely to be in poor physical condition than other low-rise buildings. Since external building components were found to have the greatest repair needs, neighbourhoods will suffer impacts in terms of the outward appearance of the buildings and their effect on neighbourhood quality.

SENIOR GOVERNMENT WILL EXPERIENCE INCREASED PRESSURE

Both the provincial and federal government will feel various impacts from continued changes in the low-rise apartment stock in Ontario's large cities. These impacts will create increased demand for government expenditures in the areas of housing and social services.

- Increased demand for assisted housing. EKOS research associates has estimated that over the next 10 years as much as 30% of the low-rise rental stock in Ottawa, Toronto and Hamilton could be lost due to physical deterioration or undergo such a significant change to its current market role that it could be considered lost from the affordable rental stock.* With fully 40% of this stock being occupied by households with incomes at or below poverty line levels, and whose alternatives in the private rental market are limited at best, these changes could place significant numbers of households in need of some form of assisted housing. Under current program guidelines the majority of these households would not be eligible for assisted housing. Should such displacement take place, senior governments will be under pressure to change existing programs or create new ones to accommodate this increase in assisted housing need.

- Displacement will also create indirect social costs. Though they are difficult to quantify, there are indirect social costs created by the displacement of low-income tenants. These costs stem from the affordability impacts brought about by displacement since the new rents paid by displaced tenants will almost certainly be higher than their previous rents. These impacts will be felt the hardest by the many younger tenants in this stock, a population group already experiencing significant social stress in terms of high unemployment.

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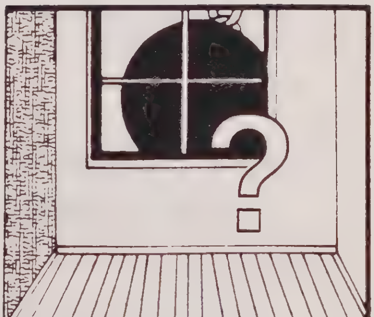
* EKOS Research Associates, The Coming Crisis: Low-Rise Apartments in Metropolitan Toronto, 1985

- Opportunity costs associated with physical loss of existing stock. Annual production shortfalls of rental housing in Ontario are currently estimated to run between 7,000 to 10,000 units per year over the next several years. If as is estimated 16% of the low-rise stock in Toronto, Ottawa and Hamilton is physically lost over the next 10 years, this could effectively increase the annual shortfall by as much as 2,000 units. To fail to get the maximum use out of the existing housing stock at a time when new rental housing production is insufficient to meet new housing requirements is to incur a significant opportunity cost.

* * * * *

Clearly the implications of allowing the trends of physical and market loss to continue unabated in low-rise sector are severe enough to warrant government action to address the problem. The next chapter examines various options available to the policy maker and sets out a recommended strategy for the Province to pursue.

Policy Recommendations



4. POLICY RECOMMENDATIONS

As discussed in the previous chapter, the continued demolition, conversion, luxury renovation and physical deterioration of Ontario's low-rise rental stock will have adverse impacts on tenants, owners, municipalities and senior governments. These impacts are of a serious enough nature to justify provincial intervention to stabilize the sector.

But designing such a policy strategy must be done in recognition of the many other issues competing for provincial resources. In the area of housing alone, problems in the low-rise stock must compete for resources with the need to stimulate new rental housing production, provide assisted housing to low and moderate income households and people with special housing needs, etc. In recognition of the competitive environment for provincial resources, three alternative strategies to stabilize the low-rise sector are presented - a recommended strategy which would have the most impact - and two alternative strategies which would have less impact but require fewer resources. Before discussing the differences between these alternative strategies this chapter describes certain principles and measures which should be common denominators of any approach to assist this sector.

STRATEGY BASED ON THREE PRINCIPLES

There are three principles which should guide the formulation of a policy strategy directed at the low-rise sector. These principles govern what the specific objective of such a strategy should be; where program efforts should be directed, and finally, what balance of policy instruments should be used.

Preserving Affordable Housing for Tenants Key Objective

The overall objective of a provincial strategy should be to encourage the preservation of the low-rise stock both physically and in terms of its low-cost market role. This sector is an important source of inexpensive housing for low-income tenants and must be preserved since few alternatives exist and new production cannot create units at comparable rents.

Must Target Major Cities

This study has involved detailed research into the low-rise stocks of nine Ontario cities whose populations range in size from 2 million to 5,000. In addition, Province-wide data was collected from a variety of sources and analyzed by size of centre. The results of this extensive analysis show that the physical deterioration and market pressures being experienced in the low-rise stock are primarily big-city problems. In smaller centres, the buildings are newer and are not subject to the same degree of market pressure as their big-city counterparts. This is not to say that Ontario's smaller cities will never experience these problems. In fact, these areas may very well begin to experience major repair needs in their low-rise apartment stocks when the buildings are older.

Thus, any provincial strategy should be targeted at low-rise buildings in Ontario's largest cities. While such targeting inevitably entails greater program delivery costs, these costs are outweighed by the benefits of a more effective use of public resources and a more focussed approach to the problem.

Strategy Must Be Multi-Faceted

Any strategy aimed at assisting the low-rise sector must have a number of dimensions. First and foremost, it must be able to address the dual problems of the accelerated physical deterioration which is reducing the remaining useful life of this stock, and the market pressures which are precipitating demolitions, conversions and luxury renovations. Since there is no single measure which, by itself, would address both of these problems, the Province must consider a package of initiatives.

Secondly, an effective strategy must be carefully balanced in its intent. To simply further constrict the options of luxury renovation, demolition or conversion would not be effective in trying to preserve this stock. In fact such a strategy would likely have the opposite effect. What is needed is a strategy which marginally strengthens existing regulatory powers over this sector but which also increases the attractiveness of owning these buildings under their current status relative to the options of luxury renovation, conversion or redevelopment.

EXHIBIT 4.1

POLICY STRATEGIES FOR LOW-RISE SECTOR

FOUNDATION INITIATIVES

1. Fund Municipal Planning Support Program
2. Encourage Differential Fees for Building And Demolition Permits
3. Amend Planning Act to Permit Holding Period on Demolitions
4. Change Rent Review System to Encourage Rehabilitation
5. Promote Density Transfer Policies for Low-Rise

+

RECOMMENDED APPROACH

1. Implement Provincial Property Tax Rebate Program
2. Offer Provincial Rehabilitation Loans
3. Provide Technical and Management Support
4. Bolster Funding of Convert-to-Rent Program

OR

LESS CAPITAL REQUIRED

LESS ADMINISTRATION REQUIRED

OPTION A

1. Provide Technical Management Support
2. Set up Scaled-Down Rehabilitation Loan Program

OPTION B

1. Provide Technical & Management Support
2. Negotiate Provincial Support Funding to RRAP

Finally, such a strategy must contain mechanisms which will allow municipalities to monitor changes taking place within their low-rise stocks. The information collected through these monitoring mechanisms will serve as an important information base from which programs can be targeted.

SUMMARY OF PROPOSED STRATEGY AND OPTIONS

Our research into policy measures which might be used to either precipitate low-cost rehabilitation in this stock or to encourage its continued operation as inexpensive rental accommodation covered over thirty individual policy options. Each of these options, in turn, could assume a variety of forms. An evaluation of each measure based on its likely impact on the problem, its cost and its ease of implementation and administration has lead to the recommendations contained in this report. Exhibit 4.1 outlines our recommended strategy which is made up of five foundation initiatives and four major Provincial programs. It also outlines two optional strategies either of which when used in concert with the foundation initiatives would require fewer resources than our recommended programs but would also have less impact.

ANY STRATEGY SHOULD BUILD ON FIVE MEASURES

While alternatives exist in terms of major policy initiatives, there are five measures which, because of their low cost and relative ease of implementation, should be part of any strategy to stabilize the low-rise sector. These measures represent a combination of foundation resources for major complimentary program initiatives, marginal increases in regulatory controls over this stock and finally, minor incentives aimed at preserving some buildings in Ontario's largest cities.

1. Province should fund municipal planning support program. Municipalities in Ontario's major urban areas must be familiar with their low-rise stock and be able to monitor the changes taking place within it before any strategy can be implemented. With provincial funding municipalities could inventory their low-rise stock and develop a data capacity which would sensitize them to luxury renovations, conversions

and demolitions. This information would also be used to deliver and evaluate programs designed to assist this sector and to assess opportunities for intensification of underutlized buildings and density transfers. If delivered to all local municipalities within Ontario's ten C.M.A.'s the program would require an annual outlay of $200,000 - $400,000 over a five year period.

2. Municipal control to delay demolition should be strengthened through changes to the Planning Act. Under the current Planning Act, municipalities may designate areas of demolition control in which residential properties cannot be demolished without first having received a demolition permit. The ability of municipalities to control demolitions of low-rise buildings could be strengthened by changing the Planning Act to allow them to delay issue of a demolition permit for rental buildings of over six units for one year from the date of application.

   This legislation is already in place for the City of Toronto by way of a private member's bill. Changing the Planning Act would make it available to other municipalities. Such legislation, must be coupled with programs that would allow municipalities to explore various options to preserve threatened buildings. It would be inexpensive and would reduce the loss of low-rise buildings through demolition.

3. Fees for demolition and "luxury" renovation of low-rise buildings should be raised. Under the current Building Code Act, municipalities can collect fees for demolition permits and building permits. The Act empowers municipalities to designate classes of permits and to prescribe the fees to be charged. Municipalities should be encouraged to pass by-laws which set relatively higher fees for the demolition or "luxury" renovation of designated classes of existing rental buildings. For building permits the differential fees could only come into effect above a specified per unit value of work so as not to discourage desirable rehabilitation activity. The effectiveness of this measure for different municipalities would hinge on how strictly they interpret the section of the Building Code Act which describes when a building permit is required.

4. Municipalities should allow density transfers from low-rise sites. Some older low-rise buildings occupy sites whose density allowance is greater than the built density on the site. Municipalities should explore the possibility of a sale or transfer of excess density in exchange for agreement to conditions governing the future status of the building. Municipalities could minimize the community impacts of shifting densities by restricting the areas within which such a transfer can take place through policies laid out in their official plans.

5. Rent review system must be changed to encourage desirable rehabilitation of low-rise buildings. Rent review is an important variable affecting the repair and maintenance activity of low-rise owners. The rent review system in Ontario is currently being examined by a provincial Commission of Inquiry and many of its Phase I recommendations relate to the subject of capital improvements. While the removal of the $750 exemption is desirable in that it will reduce luxury renovations it is crucial that the system also be made to encourage low-cost rehabilitation. To do this, it must allow real and imputed costs to be passed through in a fair manner, recognize the sweat equity the many small owners in this sector put into their buildings, and allow owners to earn a reasonable return on these investments.

   In addition, the rent review system needs to be more effectively marketed to the small unsophisticated owners in the low-rise sector. The relative infrequency with which these owners go to rent review reflects among a number of things, their inability to cope with the detailed documentation required by the process.

HIGH IMPACT APPROACH BASED ON FOUR PROVINCIAL PROGRAMS

To be effective, any strategy to stabilize the low-rise rental sector must contain measures to improve the financial viability of low-rise rental buildings and to encourage their physical rehabilitation. Four programs, in combination with the foundation initiatives described above, constitute the most effective policy package and is recommended as the best approach for the Province to pursue. Each of these programs is described below.

1. <u>Property tax rebate should be given in return for conditions on future of building</u>. The municipal property tax provides a ready-made means to deliver financial assistance to low-rise owners. The Province should offer a rebate on the property tax paid by owners of designated low-rise buildings. To be effective the rebate level would have to be in the range of $300 - 500 per unit and should be delivered to a priority segment of the stock. Provincial assessment files contain all the data necessary to determine eligibility for such a targeted program. The onus would be on owners to apply for the rebate from the Province. This removes any possibility of municipal finances being affected by reduced property tax revenue.

   Under such a program, the cumulative value of the annual property tax rebate should be made refundable upon any change to the building's status within a specified time period. For this program to be fully effective, the province would have to ensure that the financial benefit of this program is not neutralized through the rent review process. Precedents for this type of program are well-established. For example, the Ontario Farm Tax Reduction Program assists owners of farm properties by rebating a portion of their property taxes. If the property tax rebate program were targeted at low-rise rental buildings in Ontario's C.M.A.'s which were built before 1945 and which contained six or more units, the maximum annual cost of the program over a five year period (at an average rebate of $400 per unit and assuming 100% take-up by the target group) would be approximately $18 million.*

2. <u>Province should initiate interest-free loan program to encourage low-cost rehabilitation</u>. Incentives must also be put in place to encourage the rehabilitation of this stock. The Province should offer interest-free loans for specified types of rehabilitation work on a priority segment of the stock. The Province's pilot project, Conserve-a-Unit, provides a good foundation for a program model and could be

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* The assumption of 100% take-up is not meant to reflect our expectations of what actual program costs might be. It is used, instead, to identify comparable maximum program cost ceilings.

refined based on the recommendations of the program evaluation conducted as an input to this study. Using the same target population as for the property tax rebate program described above, and assuming a per unit loan amount of $4,000 and 100% take-up, the program would require an annual outlay of $11 - $12 million over a five year period.

3. Property management and technical support services should be delivered to small landlords. The small landlords who dominate the low-rise rental sector sometime lack the resources and technical knowledge to manage and maintain their properties in a cost effective manner. The viability of these small operations could be improved through the provision of services on areas such as:

   - budgeting;
   - financing;
   - accounting;
   - rent review;
   - landlord tenant relations;
   - repair and maintenance strategies;
   - energy improvements.

   The Province could either fund regional landlord associations to provide these services at low-cost or deliver a subsidy directly to individual owners to cover a portion of the cost of purchasing these services from private property management consultants. Based on a 50:50 cost sharing formula the maximum annual cost of a subsidized program would be $1.5 - $2 million over five years.

   There are many precedents for such a program. Analogies can be drawn to the Community Resource Organization Program (CROP) which provides financial assistance to resource groups offering technical and professional services to non-profit and co-operative housing groups. There are many other analogies in the business world such as the small business assistance programs delivered through the Province's Small Business and Field Services, a Branch of the Ministry of Industry and Trade.

4. Provincial Convert-to Rent Program should be bolstered. Another way to improve the financial viability of certain low-rise rental buildings is to increase their revenue positions by adding to the number of units in the building. The current provincial Convert-to-Rent program provides owners with financial assistance to do this. However, the program, while very successful in smaller cities, has not been used to any great extent in big cities such as Ottawa and Toronto where zoning regulations are thought to have inhibited take-up. The Convert-to-Rent Program is being evaluated this summer by the Ministry and should be carefully examined to see how it could be made to be effective in these cities, which represent the focus of the low-rise problem. If such program changes could be achieved, bolstered allocations to this program could have a small but positive impact on the market pressures problem in these cities.

OTHER STRATEGIES USE FEWER RESOURCES, BUT HAVE LESS IMPACT

Given the many housing issues that are competing for provincial resources, two alternative policy strategies are identified in Exhibit 4.1. Each is designed to be implemented with the foundation initiatives also shown in Exhibit 4.1, but each uses fewer resources than the high impact approach described above.

Option "A", which is highly capital sensitive, involves only two provincial programs, the subsidized technical and management support program described above, and a scaled-down interest-free loan program for rehabilitation. The latter program would offer the same per unit loan amount as the interest-free loan program under the recommended policy package but would have a smaller annual unit allocation.

Option "B", which requires fewer administrative resources, would offer the same technical and management support program to the sector but would deliver provincial financial assistance for rehabilitation through the existing administrative system of the Federal Residential Rehabilitation Assistance Program (RRAP). The Province could negotiate with the federal government to add provincial funds to the Ontario RRAP funding envelope in exchange for changes to the program's design

which would enhance its ability to deliver rehabilitation assistance to older low-rise buildings. This stock has not received much attention under RRAP to date due to certain program characteristics.*

MANY OTHER POLICY OPTIONS EXAMINED

As noted above, there are many other measures which were considered as possible elements of a policy strategy, but rejected after closer examination. Since one of our principal intentions in designing a recommended strategy was to include a means of delivering financial incentives to a priority segement of the low-rise stock, many different mechanisms were considered including various tax incentives, grants, freezes on assessment, etc. Of all the measures examined, a property tax rebate was deemed to be the most appropriate because of its direct impact on cash-flow, its ability to be targeted and its ease of implementation.

The area of regulatory control over changes to the stock was also closely examined. The current system of condominium conversion controls was carefully studied and found to be both necessary and effective in its current form. It is felt that no changes are necessary in this area.

Various options which would promote the preservation of existing low-rise buildings through encouraging alternative forms of ownership were also looked at. These included different forms of tenant purchase, as well as non-profit and cooperative ownership under the federal social housing programs. Programs to promote tenant purchase were rejected at this point in favour of our recommended measures because they would take the buildings out of their current market role as privately owned low-cost rental housing, which is exactly what we are trying to discourage through our recommendations.

Use of scarce social housing unit allocations to purchase existing low-rise buildings was not recommended for a number of reasons. Most importantly we feel that there are other, less expensive measures which can

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* This statement is based on discussions with CMHC policy analysts and an examination of preliminary data from the RRAP evaluation being conducted by CMHC.

address the problem without cutting into the money allocated for the production of new social housing units. There are almost 60,000 units in low-rise buildings located in Ontario's C.M.A.'s which are over 40 years old. The expense involved in acquiring, rehabilitating and operating these units on a significant scale would be tremendous. In addition, tenants displacement would result under existing programs since many of the existing low-rise households would not meet eligibility criteria.

However, both the tenant purchase and third-sector ownership options may be appropriate to consider in the future, should the trends of physical and market loss in this sector not be adequately altered and additional policy measures become necessary.

In closing, it is important to point out the important benefits the recommended policy strategy will have in addition to the preservation of existing stock. Preservation of units that might have otherwise been demolished will reduce government expenditures on new housing production. Programs aimed at encouraging rehabilitation will create many jobs and other important spin-off benefits as a result of both the public and private investment such programs generate. Finally, less visible, but equally important cost savings will be incurred through reducing displacement of low-income households which can result in greater demand for social support services.

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This study has revealed some very important information about the characteristics of owners and tenants in Ontario's low-rise rental sector. This information has utility beyond the particular study and can serve to inform discussions taking place on many other policy issues in the field of housing.

Some of the findings uncovered during the course of this study have pointed out the value of undertaking a similar examination of smaller scale rental forms such as duplexes, rooming houses, etc. These rental forms also make-up a significant proportion of the total rental stock, contain many older buildings, are predominantly owned by small landlords and represent another key source of low-cost housing.

APPENDIX

Public vs. Private Low-Rise

A key source of data for this study was special tabulations of the 1981 Census of Canada. Unfortunately, while this data source has the advantage of allowing crosstabulations to be performed, it does not distinguish between privately and publicly owned low-rise buildings. To try to counter this problem, the study team requested a special tabulation of data from the Province's Community Housing User Management System which would provide us with a fairly reliable estimates of the publicly-owned low-rise stock in Ontario.

The results of this exercise indicate that approximately 78,000 of the 292,005 low-rise units are in buildings that are non-privately owned. Approximately 46,000 of these are in OHC buildings and the remaining 32,000 are in buildings owned by co-operative, municipal and private non-profit groups.

Our analysis of these figures show that there is a higher percentage of non-private ownership within the low-rise sector than in the high-rise sector. This has important implications for the exact degree of many of the Census-based findings contained in this report since OHC tenants and tenants in co-operative and non-profit projects have specific household and income characteristics.

However, while removing the assisted housing stock from our analysis of Census data might change the degree of the findings somewhat, our overall conclusions would remain unchanged, since all of these conclusions are supported by similar findings from survey data which reflects only privately owned low-rise buildings.

Poverty Line Analysis

Poverty line figures, or "low-income cutoff lines" as they are officially titled, are derived by Statistics Canada based on family expenditure data and are revised annually using the Consumer Price Index. Different low-income cutoff lines are calculated for different household sizes and are adjusted by size of urban centre.

The household income data collected in the survey of low-rise households conducted for this study was analyzed against these low-income cutoff lines, adjusting for the appropriate household and city size. This analysis determined that 41% of all surveyed low-rise households had household incomes below those cutoffs. Further information on low-income cutoffs can be obtained from Statistics Canada's Consumer Income and Expenditure Division.

Estimates of Future Changes in the Low-Rise Stock

The estimates of the likely extent of future change due to physical deterioration and luxury renovation in the low-rise stocks of Ottawa, Toronto and Hamilton were derived by EKOS Research Associates as part of their survey-based research. Their estimates are based on in-depth analyses of the physical condition of the stock and the espoused intentions of the owners.

Our adoption of these estimates into our own report comes after a critical review of this and all other findings of the research undertaken for this project. While recognizing that forecasting future trends in this way is subject to many difficulties, we believe that the figures themselves are not unreasonable for the following reasons:

1. They likely represent only a slight escalation of past trends. Our case study of changes in a sample of the City of Toronto's low-rise rental stock showed that 13% of the buildings in the sample underwent a significant change in their status over the seven year period. This did not include an examination of luxury renovations which have likely been significant. EKOS's estimate of 30% change over a ten year period appears highly credible in this light.

2. Many factors point to the likelihood of this degree of change taking place. The estimates were based on an examination of many factors all of which point to the instability within this sector. Detailed building inspections were performed which found significant rehabilitation needs, financial analyses found largely marginal economic conditions across the surveyed stock, and finally, and most importantly, there is significant disenchantment among low-rise owners with their investments. It should also be pointed out that the findings on the extent of rehabilitation need within the low-rise stock are supported by findings from other sources such as HIFE and Census data, as well as previous studies in specific market areas.